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Social Capital Transfer and Professional Service Firm Acquisition

by

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Abstract

This study examined how to best transfer social capital during professional service firm acquisitions. Using a qualitative, multiple case-based approach the study makes two important contributions. First, all four cases were successful in client retention and professional staff retention, yet only two cases were successful in retaining partners. This finding contradicts previous studies that found when partners leave the firm after acquisition clients follow. This research study found that clients stayed with an acquiring firm as long as their on-site project team remained more or less intact. This finding implies that social capital can be transferred between individuals and organizations. Second, a framework of organizational factors that contribute to the successful retention of social and human capital was developed. Successful retention of clients was primarily dependent on the retention of the project team (professional staff), but the robustness of the contract, the nature of the project work and sufficient communication were factors as well. Successful retention of professional staff relied upon the integration process, of which sufficient communication; goodness of organizational fit and goodness of strategic fit were factors. Successful retention of partners was based on timely communication and the importance of leadership roles for some of the acquired partners.

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Chapter 1

Introduction

Mergers and Acquisitions

This thesis examines mergers and acquisitions (M&As) in a setting that has experienced considerable acquisition activity and yet is particularly vulnerable to acquisition failure. The setting is the professional service industry, specifically management consulting. This sector of the economy is vulnerable to acquisition failure because of its reliance upon highly mobile employees and the importance of relationships with clients. In this thesis, I refer to these client relationships as the firm's social capital. It is contended that social capital is a critical dynamic in the success or otherwise of the acquisition process. My central question is how social capital (i.e. the relationships between clients and the professional staff) should be transferred from one professional service firm to another when a firm is bought or acquired. I contribute to three literatures: namely, those dealing with mergers and acquisitions, social capital, and the management of professional services.

The study of mergers and acquisitions is a central topic in organization theory because of their complexity and frequency of occurrence in the contemporary economy (Angwin & Vaara, 2005; Barkema & Schijven, 2008; Bower, 2001; Larsson & Finkelstein, 1999). Since the 1980s, an unprecedented wave of M&As has impacted all parts of the world, every industry, and the private, as well as the public sector (Angwin & Vaara, 2005). Over 374,800 mergers and acquisitions have taken place globally in the past nine years alone (Zephyr, 2009), reaching an all-time record high of $4.4 trillion worldwide in 2007, up almost 20 percent from $3.79 trillion in 2006 (Thompson Financial, 2008). Merger and acquisition activity has been significantly impacted since the worldwide credit crunch began in 2008 (Towers Perrin, July 2009: 1). M&A activity in the first quarter of 2010 declined 27% over the same period in 2009 (Reuters, April 17, 2010). Merger and acquisition deal activity has been overshadowed by concerns of a U.S. recession, tight credit markets and stock market weakness (Reuters, April 17, 2010). However, a study done by Towers Perrin (July, 2009) found that companies continuing to complete deals have been positively rewarded with market outperformance of 6.3% compared with peers who are not completing deals. Thus, it appears that although the volume and dollar value of mergers and acquisitions has declined over the past two years, the complexity, frequency and appeal of M&A's will continue to impact the global economy into the future.

Although used interchangeably, mergers and acquisitions are two different entities. They have fundamentally dissimilar legal structures as well as varied implications for power relationships between the firms. In a merger, the legal structure suggests that both sets of senior managers have an equal right to control the integration process, though the balance of power may shift over time. In an acquisition, the senior managers of the acquiring firm have, in effect, paid for the right to control the resources of the acquired firm, including its senior management (Empson, 2000a: 212). In the professional service firm sector, the term ‘merger’ is used in preference to ‘acquisition’ in order to de-emphasize any imbalance of power between the combining firms and facilitate integration (Empson, 2000b: 39)[1]. In reality, however, most professional service firm mergers are really acquisitions. The new combined firm often ends up looking like a larger representation of one of the former organizations with regards to policies and procedures, structure, and even senior management. In the context of this thesis, although I sometimes use the term ‘mergers and acquisitions’ or ‘M&As’ when discussing the literature, my focus is on acquisitions and the four case studies examined during the research study are all acquisitions.

Acquisitions allow firms to achieve greater market power, overcome barriers to entry, enter new markets quickly, and acquire new knowledge and resources (Vermeulen & Barkema, 2001: 457). However, acquisitions have had a “checkered past” (Basu, 2006: 28), and many, perhaps most, are not successful (Basu, 2006; Bower, 2001; Chatterjee, Lubatkin, Schweiger & Weber, 1992; Datta, 1991; Datta, Pinches & Narayanan, 1992; Haspeslagh & Jemison, 1991a; Haspeslagh & Jemison, 1991b; Hitt, Hoskisson, Ireland & Harrison, 1991; King, Dalton, Daily & Covin, 2004). It has been estimated that close to 80% of acquisitions do not meet their premerger financial goals and that almost 50% are failures (Nahavandi & Malekzadeh, 1993). Acquisitions imply additional costs for acquiring firms. These costs consist of an average takeover premium of 20-40%, as well as the costs of integrating the acquired firms into the acquiring

[1] In the cases described later, the acquisition process was called “harmonization” in a further attempt to make the acquisition seem less threatening to the employees.

organizations (Vermeulen & Barkema, 2001). Ravenscraft and Scherer (1987) found that, on average, the profitability of target firms' declines after an acquisition. Moreover, a large proportion of acquired companies are divested or sold off within a few years because of their unsatisfactory performance (Porter, 1987; Ravenscraft & Scherer, 1987). Disappointing performance is often because of the valuation and premiums paid, questionable acquisition motives by the acquiring firm (Schweizer, 2005), and the inability to successfully integrate the two firms (Agrawal & Jaffe, 2000; Datta et al., 1992; Haspeslagh & Jemison, 1991a; Haspeslagh & Jemison, 1991b).

The above issues imply that acquisitions are not very well understood and that our understanding of the determinants of successful acquisitions is incomplete. Sirower (1997) and Schweizer (2005) assert that this indicates the absence of adequate empirical research and thus question whether the prescriptive integration approaches by Haspeslagh and Jemison (1991a; 199b), Nahavendi and Malekzadeh (1988), and Napier (1989), adequately address the complexity of the post acquisition integration process. In short, we need to better understand acquisitions.

The need for further research in the merger and acquisition area is especially noticeable for professional service firms (PSFs). This sector has been the subject of considerable merger and acquisition activity over the past decade as many firms merged in order to build up their market presence and compete for the lucrative business of corporations that were also becoming bigger and increasingly global. Some PSF firms have merged with other PSF firms (i.e. Price Waterhouse and Coopers & Lybrand), while others have merged with client organizations (i.e. Walt Disney and American Broadcasting Company), creating large conglomerates, such as in advertising or public accounting. For example, mergers between large accounting firms over the last decade have reduced these firms from the Big Eight to the Big Four in less than ten years (Stumph, Doe & Clark, 2002). Professional service firms are a particularly interesting context for studying mergers because of their heavy reliance on social capital. The concept of social capital and its importance to the areas of mergers and acquisitions and professional service firms is discussed in the next section.

Social Capital

Social capital is important in the context of M&As because many acquisitions are undertaken to take advantage of the existing resources of the target firm. These resources consist of the target firm's employees (i.e. their knowledge and experience) and client list. The relationships that the target firm's employees have with their clients constitute the firm's social capital. The prevailing notion of research is that to achieve effective resource transfer between acquired and acquiring firms, the individuals and groups who contain the most valuable knowledge and social capital within the target firm must remain with the purchaser and co-operate with resource sharing initiatives. However, individuals (employees and clients) may resist by withdrawing and/or reducing their commitment to the organization. Staff turnover may increase sharply as employees choose to leave rather than commit to the new firm (Cartwright & Cooper, 1990; Empson, 2000a; Hambrick & Canella, 1993; Walsh, 1989). Professionals may show their resistance by leaving the acquiring firm and opening competing professional service firms. Marquis and Lounsbury (2007) illustrated this when they examined the resistance of professionals to commit to a new firm in their study of U.S. community banks that were acquired by large national banks. "New banks [were] founded to serve newly attractive and underserved market niches left in the wake of mergers" (Marquis & Lounsbury, 2007: 803). The founding of the new banks opened the door for some professionals to leave the acquiring firm and join smaller, more independent, community-minded banks. As can be seen below, clients can also decide to leave a firm after a merger or acquisition announcement.

Employee and client capriciousness mean that it is necessary for acquiring firms to consider employee and client turnover. Employees who leave take important knowledge with them and the cost of replacing employees can be high. Departing employees may also procure important client relationships and these lost relationships are both difficult to replace and impact the success of the acquisition. In addition, clients may leave even if professionals stay. There are a variety of reasons for this. Clients may be able to obtain a better price for professional services with another firm, or perhaps the client has had a falling out with the professionals who have been working with them. Sometimes the client changes professional service providers trying to achieve a more competitive edge.

The study of social capital has been neglected within the research on mergers and acquisitions. This neglect has resulted in a gap in understanding regarding what needs to be done to ensure acquisition success. The following research study attempts to address that gap by developing a framework outlining what firms undergoing an acquisition should do to ensure that key client and staff relationships are maintained.

Since the 1980s the concept of social capital has increased in prominence and emerged as an important research concept in a variety of areas including sociology, political science, economics, anthropology and management (i.e. Bourdieu, 1986; Burt, 1992, 1993; Coleman, 1988, 1990; Portes, 1998; Putnam, 1993, 1995; Woolcock, 1998). There are many definitions and approaches; however, there is increasing agreement that social capital stands for *the ability of actors to secure benefits by virtue of membership in social networks or other social structures* (Portes, 1998). Social capital is created when relations among people change in ways that facilitate instrumental action (Coleman, 1990) and refers to the many different kinds of resources (including information, ideas, business opportunities, financial capital, power, emotional support, goodwill, trusts, and cooperation) that are available to individuals and organizations through personal and business networks.

Social capital is a resource available through social networks and elite institutional ties (Beliveau, O'Reilly & Wade, 1996; Nahapiet & Ghoshal, 1998) and encompasses the 'goodwill' that is produced by the fabric of social relations that can be mobilized to facilitate action (Adler & Kwon, 2002: 17). Analysts of social capital are centrally concerned with the significance of these relationships and how they influence social action (e.g. Baker, 1990; Bourdieu, 1986; Burt, 1992; Coleman, 1988, 1990). From a research perspective, social capital is valuable because it solves problems of coordination, reduces transaction costs, and facilitates the flow of information between and among individuals (Bolino, Turnley & Bloodgood, 2002). In practical terms, possessing social capital means that job and contract competitions are often awarded to those somehow connected to key individuals in positions of power. For example, gaining membership to exclusive clubs requires inside contacts and consumers are often drawn to do business with persons or firms that are the most visible in the community or have the best name in the industry.

Similar to other forms of capital, social capital "is a long-lived asset into which other resources can be invested, with the expectation of a future flow of benefits" (Adler & Kwon, 2002: 21). It has the potential to be a very valuable asset. It is productive and allows the achievement of goals unattainable in its absence (Leenders & Gabbay, 1999). Social capital can act as a substitute for, or complement to, other resources and can sometimes compensate for a lack of financial or human capital because of an individual's superior connections with others (Adler & Kwon, 2002).

The central premise of social capital theory is that networks of relationships are a valuable resource for the conduct of social affairs (Nahapiet & Ghoshal, 1998).

Social capital can therefore be a powerful factor in explaining actors' relative success. Past research on social capital has focused on a number of areas. The first area of focus is how social capital is *built* (e.g. Burt, 1992, 1997; Fukuyama, 1995; Gabbay & Zuckerman, 1998; Nahapiet & Ghoshal, 1998; Putnam, 1993, 1995; Tsai & Ghoshal, 1998). The building of social capital is accomplished through the assembly of network ties (i.e. "who you know" affects "what you know") that in turn provide actors with access to resources.

The second area is how social capital is *leveraged* or used. To understand how social capital can be leveraged researchers have looked at how social capital has influenced career success (e.g. Burt, 1992; Gabbay & Zuckerman, 1998; Podolny & Baron, 1997), executive compensation (e.g. Belliveau, O'Reilly & Wade, 1996; Burt, 1997), and successfully finding a job (e.g. Granovetter, 1973, 1974; Fernandez, Castilla & Moore, 2000; Fernandez & Lourdes Sosa, 2005; Fernandez & Weinberg, 1997; Lin, Ensel & Vaughn, 1981). The above studies all highlight the impact of relationships when it comes to job attainment and career success.

The third area is how social capital is *brokered*. This area has been extensively examined by Burt (1997, 2007), Fernandez and Gould (1994), and Gould and Fernandez (1989) and describes social capital in terms of the information and control advantages a broker has when dealing with people otherwise disconnected in a social structure. The broker controls both the flow of information between people and the forms of projects that bring people together (Burt, 1997). Burt has since gone on to analyze brokerage in terms of "information arbitrage" (2007:

122). Information arbitrage is essential to the idea that network brokerage provides social capital. There is no competitive advantage to brokering interpersonal connections if full information is readily available. Knowing how information varies between friends of friends can be valuable. If information flows easily between friends of friends, or distant bits of information can be locally valuable, then it makes sense to model the brokerage into the network beyond direct contacts (Burt, 2007: 122).

The fourth area is how social capital is *harvested* at the end of a relationship (e.g. Granovetter, 1974). Social capital *harvest* is defined as the ability of an individual to do something with an accumulated network of relationships after deciding to exit a business (i.e. sell out, retire or leave to do something else). While not a major area of focus for many researchers, studies have recently begun to explore the concept of social capital harvest by examining the consequences of personnel mobility and a firms' ability to access individual-level social capital (e.g. Broschak, 2004; Coff, 1997, 1998; Somaya, Williamson & Lorinkova, 2008). Fund, Pollack & Tsai (in press), studied what organizations can do to continue benefiting from social capital previously maintained by employees who now want to leave the organization. Existing research has not yet examined how to make the most of situations that disturb the client end of the tie or how individuals can continue to draw on the social capital of their prior employers.

The last area of research and the focus of this thesis is how social capital is *transferred* (e.g. Fernandez, Castilla & Moore, 2000; Fernandez & Lourdes Sosa, 2005; Fernandez & Weinberg, 1997; Granovetter, 1973). In the context of this dissertation, social capital *transfer* is defined as the ability to successfully transmit or acquire social capital from one actor to another. The concepts of "harvest" and "transfer" are closely related in that both areas involve the ability to successfully transfer a network of relationships. However, social capital harvest is completed once an individual has made the decision to exit through retirement or the sale of their business. Social capital transfer, on the other hand, does not imply the end of a relationship, but rather continuation through the development of new connections or networks. The development of new connections is completed when an individual moves from one network to another or establishes a new link between networks. Fernandez et al. (2000) illustrated the concept of social capital transfer in their study of employers who hire new workers via employee referrals:

> "Hiring via referrals is a process that flows through employees' social networks…. The fact that employers often pay monetary bonuses to their employees for successful referrals suggests that employers view workers' social connections as resources in which they can invest, and which might yield economic returns in the form of better hiring outcomes" (Fernandez et al., 2000: 1289).

Similarly, Fernandez and Weinberg (1997) found that referrals increase applications, lead to better-qualified candidate recruitment, and reduce costs in the candidate screening process. Granovetter's (1973) work on the 'strength of weak ties' additionally illustrated the idea of social capital transfer as he found that when someone changed jobs, they were not only moving from one network of ties to another, but also establishing a new link between the two networks. In addition, he found that the degree of overlap of individuals' friendship networks varied directly with the strength of their tie to one another. The bridging of weak ties allowed for information and ideas to flow more easily between wider networks, and gave these somewhat unconnected individuals a sense of community.

Critically, social capital cannot be transferred easily since friendships and obligations do not pass readily from one person to another, particularly when one side has been disturbed. Further, to survive it needs maintenance because social bonds have to be periodically renewed and reconfirmed (Adler & Kwon, 2002) and the social structure required to sustain social capital can shift as transactions, activities and conditions change and become more or less complex. In addition, relationships beneficial to the achievement of goals in the past may thwart further goal attainment (Leenders & Gabbay, 1999: 4). In the context of acquisitions, the transfer of social capital within an organization can be an onerous task, as accumulated social capital represents years of cultivating contacts and developing strong ties between clients, suppliers and other industry professionals. Within professional service firms the transfer of social capital has heightened importance because of the importance of relationships with clients. Professional service firms and their importance to the area of mergers and acquisitions and the concept of social capital are discussed in the next section.

Professional Service Firms

The term "professional service firm" is used to describe organizations carrying out a variety of activities, from law to architecture, to audit and accounting, to consulting and advertising and software production (Greenwood & Lachman, 1996; Greenwood, Suddaby & McDougald, 2006; Maister, 1993; von

Nordenflycht, 2010). Professional service firms are difficult to define, as there are wide ranges of industries that have been listed in recent studies as examples of professional services. PSFs are often described as firms whose primary agents are individuals with prolonged specialized training in a body of abstract knowledge and whose output is intangible and impossible to hold in inventory (Sharma, 1997). Recent work by von Nordenflycht (2010) goes one step further in the focus on mastery of expertise and theorizes that PSFs are better described as having three distinctive characteristics: knowledge intensity, low capital intensity and a professionalized workforce (von Nordenflycht, 2010: 155).

PSFs have become increasingly prevalent in today's society because of the increased demand for consultants, lawyers, accountants, and other individuals who utilize abstract knowledge to solve organizational problems. Professional service firms involve a high degree of discretionary effort and personal judgment by the expert(s) delivering the service, and the work typically requires substantial interaction with the client firm representatives involved (Lowendahl, 2000). The professionals bring to the firm their expertise, their experience, their skills in relationship building and maintenance, their professional reputations, their network of professional peer contacts, and their established relationships with past, present and future clients (Lowendahl, 2000).

Social capital is very important to professional service firms because a professional service firm's success depends largely on the ability of the professionals working within these firms to win work through the development of strong, continuing relationships with clients. Over the past several years there has been an increase in the number of acquisitions between professional service firms and the problem of acquiring or transferring social capital has therefore amplified. The increase in acquisitions is partly caused by the aging demographic of the industry, resulting in increasing numbers of founders and partners of professional service firms looking to retire or sell. The growing tendency for firms to move personnel geographically, and the desire of PSFs to join forces with another to increase their global reach or diversify into alternative areas has also impacted the number of PSF acquisitions. The research study outlined in this dissertation seeks to identify factors that contribute to successful retention of staff and clients, as well as factors that increase the risk of staff and client loss.

The output of PSFs is co-produced through coordinated efforts with client firms, implying that actors from both the client and professional service firm must interact for delivery to occur (Mills & Margulies, 1980). To the extent that an individual holds a position within the formal and/or informal structure of an organization that provides him/her with the ability to access and deploy resources that are valuable to others (e.g., information, capital, technology), the individual can more effectively leverage relationships because s/he has more to offer in exchange (Blau, 1964; Pfeffer & Salancik, 1978). "Professionals possess expertise that is outside the technical knowledge of their clients, making it difficult for clients to assess their technical abilities objectively or observe and assess their work related behavior" (Broschak, 2004: 609). As a result of these characteristics, markets for professional service firms, more so than markets for manufacturing and other types of firms, depend more heavily on the human and social capital of exchange managers to sustain exchange relationships (Broschak, 2004).

The Research Question Restated

There has been significant prior research on how to build, leverage and broker social capital, however, theoretical insights into how best to harvest and transfer social capital have not yet been extensively researched. Although social capital harvest is an interesting notion, in the context of this thesis, I am not concentrating on what happens when founders of professional service firms decide to sell out or retire and desire to harvest the value of their relationships in order to accumulate adequate funds for their next entrepreneurial venture or retirement. Rather, my focus is on professional service firms that grow through the acquisition of other professional service firms. To date most research has found that for the acquisition to be successful the acquiring firm must retain a high percentage of the acquiring firm's clients and professional staff. Retaining clients and professional staff allows for the transfer of social capital from one firm to the other. This makes the issue of how best to manage the transition of clients and professional staff from one firm to another especially relevant. However, past research has focused on the retention of the partnership level in professional service firms, and not paid as much attention to mid level and junior professional staff. My research study is important because it specifically analyzes the separate impact of partners and professional staff on client retention.

This study seeks to advance theory through the development of a theoretical framework that identifies those factors that contribute to the successful transfer and retention of clients and professional staff/partners, as well as those factors that increase the risk of clients and professional staff/partners exiting the firm. As mentioned above, this study also investigates whether the level of professional employees (i.e. partners versus professional staff) who exit the firm impacts the overall retention of clients. This research question has been little studied in the professional service firm literature, although as I note in Chapter Two, some recent studies have looked at professional service firm mergers (i.e. Empson, 2000a; Greenwood, Hinings & Brown, 1994), and how it is determined whether clients are attached to a professional or to a firm (i.e. Broschak, 2004; Coff, 1997, 1998; Somaya et al., 2008).

The empirical context selected for this research was a qualitative, case-based approach comparing multiple cases. It was modeled after Brown and Eisenhardt's (1997) comparative case study. This previous study was chosen as a model because of its focus on successful and less-successful examples of multiple product innovation. My research study focused on the transfer of client and staff relationships during an acquisition, using a comparison of successful versus less-successful examples of the transfer of social capital.

The company used as the foundation for this case study has been disguised to protect its anonymity. For the purposes of this research study, it will be referred to as the Canada Consulting Company (CCC)[2]. CCC is a global professional service firm that has achieved significant growth through the acquisition of smaller multi-office professional service firms. CCC is primarily an information technology firm that undertakes large scale IT projects. In an attempt to expand they have focused on growing by acquisition. Many of their acquisitions have been other information technology firms, but a small number of the acquired firms have specialized in management consulting. This research study examined four cases that were acquired by CCC during late 2004. Two of the cases studied focused primarily on information technology consulting and two focused on strategic management consulting. The degree of success of the four acquisitions varied between offices.

My initial contact into CCC (the head of management consulting at an office located in Western Canada) selected the four cases. The cases consisted of two offices that CCC felt had successfully transferred social capital and two offices that CCC felt had been less successful in transferring social capital. It is important to note that CCC defined successful transfer of social capital as the successful retention of professional staff/partners; while my research study defined successful social capital transfer as the successful retention of *clients* and *professional staff/partners* of the acquired firm by the acquiring firm. This is an important difference and as we will see in Chapter 4 impacted which firms were considered successful and unsuccessful. Semi-structured interviews were conducted with a sample of professional staff and partners from each of the

[2] Canada Consulting Company is described in more detail in Chapter 3.

selected offices and the interview transcript material was supplemented with information from a range of other sources including direct observation, company annual reports, company website, internal publications and industry statistics.

In studying the differences between the successful and unsuccessful cases (using criteria outlined in Chapter Three), it was discovered that all four of the firms were successful in client retention and professional staff retention; yet only two of the firms were successful in partner retention. From a research perspective, this was appealing for two reasons. First, it was interesting that clients didn't leave if partners left. Second, this finding challenges the dominant view that if partners of professional service firms leave, clients will follow. Prior research (i.e. Broschak, 2004; Somaya et al., 2008) found that to retain clients, PSF partners must stay with the acquiring firm. It should be noted that the aforementioned studies looked specifically at advertising and investment firms while my study examines management consulting firms. In Chapter Two I discuss some of the important differences between management consulting firms and other professional service firms such as advertising or investment firms, particularly in the way that relationships are developed and work is procured. In my study of management consulting firms I found that clients were willing to stay with the acquiring firm as long as their on-site project team remained more or less intact. These on-site project teams consisted primarily of the professional staff members who had the most frequent day-to-day contact with the clients and many of these project teams developed strong working relationships that were maintained after project completion. In most cases the project teams were made up of a combination of high, mid level and lower level professional staff. Although partners were often involved in the initial relationship building with the client, they were often farther removed from the day-to-day operations of the project work and did not have frequent daily, weekly, or even monthly contact with the client. The key points of contact for the client were the mid level and lower level professional staff and these were the relationships the clients worried about first when advised of the acquisition. Thus, a key factor to retaining social capital in professional service firms after a merger or acquisition was retaining the professional staff on the client project teams. What was not determined in my study was whether or not clients were retained for the long term (i.e. longer than three years). After the projects were completed did clients continue with the firm for further work, or did they then follow the senior partners with whom they had the established long term relationship?

Successful social capital transfer in professional service firms was dependent on a combination of social capital and human capital. There were four factors that impacted client integration and retention (*social capital*) after an acquisition. The most important factor was the retention of the professional staff (project teams). The second factor was the robustness of the contract between the client and the professional service firm. Robustness consisted of the length of the contract and the possibility for add-on work. The third factor was the nature of the work and involved whether the work was strategic or non-strategic. The fourth factor was adequate and timely communication regarding all components of the acquisition. Factors that contributed to professional staff integration and retention *(human* *capital)* after an acquisition consisted primarily of timely communication regarding all components of the acquisition. However, goodness of organizational fit (composed of the culture of the organization, management styles, the size of the merging organizations), and goodness of strategic fit (comprised of the activities undertaken by organizations working in partnership that contribute to competitive advantage and transfer the acquired firm's knowledge and skills) were also important. Factors that contributed to partner retention included timely communication and the importance of leadership roles for some of the acquired partners at the new firm.

To reiterate, the central research issue of this thesis was how should social capital best be transferred when professional service firms are acquired? There were two motivating questions. First, is it possible to acquire and retain social capital? Second, how can organizations best manage the transition or transfer of clients and professional staff and partners from one firm to another in order to retain the acquired "social capital"? This study seeks to determine the procedures professional service firms use to successfully transfer social and human capital during an acquisition.

The remaining chapters are organized as follows. Chapter Two elaborates the literature on mergers and acquisitions, social capital and professional services firms. Chapter Three outlines the methods used in this dissertation, including a description of the research site, data sources and the analytic approach used. Chapter Four compares and analyzes the four cases identifying successful versus unsuccessful practices. Finally, Chapter Five discusses the theoretical insights and contributions of the study, and suggests practical implications. As the methodology is case based, these insights, though persuasive and theoretically compelling are essentially suggestive rather than definitive. Therefore, Chapter Five offers suggestions for future research in order to confirm and extend the insights offered and to further develop themes raised over the course of this study.

Chapter 2

Theoretical Context

Introduction

The previous chapter posed an empirical question: how can social capital best be transferred when professional service firms are acquired? It is my belief that the study of social capital has been neglected within the research on mergers and acquisitions. This neglect is particularly apparent in the professional service firm sector, an area that has undergone numerous mergers and acquisitions over the past decade. This study seeks to advance theory through the development of a theoretical framework that identifies those factors that contribute to the successful transfer and retention of clients and professional staff, and partners as well as those factors that increase the risk of clients and professional staff/partners exiting the firm.

In this chapter, I review the current literature on mergers and acquisitions, social capital and professional service firms. First, I review the role of mergers and acquisitions in contemporary organizations and then shift to assessing integration issues of the firm, employees and clients (including the importance of strategic fit, organizational fit, and communication). Second, I assess the concept of social capital; starting first with its origins and the various ways it has been defined. I then review the role of social capital in contemporary society and draw upon various social capital theories in order to increase our understanding of this concept. I also explore social capital transferability in an attempt to identify factors that contribute to successful social capital transfer. Third, professional service firms are reviewed, paying particular focus to their role in contemporary society, the influence of social capital on professional service firms and the impact that the increased number of mergers and acquisitions in the professional service firm arena has had on the transfer of relationships. In addition, I outline how management consulting firms procure business and complete project work, as these differences from other professional service firms impact my findings and set my study apart from previous studies related to social capital transfer and professional service firms. Finally, this chapter concludes with a restatement of the empirical questions that are the focus of this thesis.

The Role of Mergers and Acquisitions in Contemporary Organizations

Since the 20th century there has been an increase in the overall number of mergers and acquisitions. Companies pursuing M&As are attempting to improve their position, whether this is market position, financial position, reputation, or strategic position. Reasons to merge or acquire consist of: extending into new technologies, products or services; as a substitute for research and development (R&D); increasing geographic presence; dealing with overcapacity through consolidation in mature industries; and exploiting eroding industry boundaries by inventing an industry (Bower, 2001: 94). Acquisitions allow firms the opportunity to achieve greater market power, overcome barriers to entry, enter new markets quickly, and acquire new knowledge and resources (Vermeulen & Barkema, 2001: 457). However, studies by numerous researchers (i.e. Basu, 2006; Bower, 2001; Chatterjee, Lubatkin, Schweiger & Weber, 1992; Datta, 1991; Datta, Pinches & Narayanan, 1992; Haspeslagh & Jemison, 1991a; Haspeslagh &

Jemison, 1991b; Hitt, Hoskisson, Ireland & Harrison, 1991; King, Dalton, Daily & Covin, 2004; Porter, 1987; Ravenscraft & Scherer, 1989; Young, 1981) have shown that acquisitions have a high failure rate and nearly half of all acquisitions are rated as being unsatisfactory by acquiring firms. It has been estimated that close to 80% of acquisitions do not meet their premerger financial goals and that almost 50% are failures (Nahavandi & Malekzadeh, 1993). Acquisitions imply additional costs for acquiring firms, including an average takeover premium of 20-40%, as well as the costs of integrating the acquired firms into the acquiring organizations (Vermeulen & Barkema, 2001). Additionally, there is evidence that acquisition activity can lead to reductions in internally developed innovation (Hitt, Hoskisson, Ireland & Harrison, 1991; Hitt, Hoskisson, Johnson & Moesel, 1996).

There are five different types of M&As that companies pursue. First, *conglomerate* mergers involve the acquisition of completely *unrelated* companies, companies in different geographic markets, or companies whose products do not directly compete with those of the acquiring firm (King, Dalton, Daily & Covin, 2004). However, empirical evidence on the impact of diversification on post-acquisition performance is contradictory, with research suggesting that some firms benefit from the diversification, but on average, most firms do not (i.e. Agrawal, Jaffe & Mandelker, 1992; Loughran & Vijh, 1997; Ravenscraft & Scherer, 1987).

Second, *related* acquisitions are when the two firms are *similar* in terms of resource or product-market similarity. Most M&A literature implies that acquiring related organizations leads to increased post-acquisition performance (i.e. Capron et al, 1988; Kusewitt, 1985; Palich, Cardinal & Miller, 2000; Rumelt, 1974; 1982). Related acquisitions can enable the acquiring firm's pre-existing resources to be productively leveraged in new businesses where those resources are more likely to be valued and relevant. In addition, industry familiarity can eliminate or significantly diminish the need for acquiring firm managers to 'learn' the business of the acquired firm, and facilitate learning from the acquisition process in isolation (Hitt, Harrison & Ireland, 2001). This does not mean that related acquisitions are not without risk, but acquisition relatedness may reduce the financial risk inherent in acquisitions (King et al., 2004).

Other M&A options consist of *horizontal* mergers that combine direct competitors in the same product lines and markets; *vertical* mergers that combine a customer and a company or a supplier and a company; *market extension* mergers that combine companies selling the same products in different markets; or *product extension* mergers that combine companies selling different but related products in the same market.

In this research study, the acquisitions under study are extension mergers. Canada Consulting Company is seeking to broaden its product and market offering by expanding into a different arena (i.e. management consulting in addition to purely IT implementation) as well as moving into different geographies (i.e. expanding into Western Canada and the United States). By bringing together Canadian Consulting Company's strong IT programming base and the consulting expertise of the four acquired offices, the plan was to expand the influence and marketability of the combined firm. However, it has been suggested that M&A's sometimes lead to different types of synergies than expected and the retention of key organizational members, the importance of the acquired firm's human resources, and the extent to which people's concerns are dealt with in an open and forthright manner can vary quite considerably, depending on the firm (Buono & Bowditch, 1989: 64). The implications of integration and retention are discussed in detail in Chapters Four and Five.

In addition to the different types of mergers and acquisitions, five M&A trends have been identified (Angwin & Vaara, 2005). *First*, the M&A frenzy has been in response to widespread deregulation, privatization of industries and the opening up of economies to foreign ownership. *Second*, the scope of these arrangements has increased dramatically, involving larger-scale and longer-term change processes than in the past. *Third*, the pace of M&A activity has accelerated so that there is an expectation that mergers and acquisitions be integrated faster than ever before and companies announce new mergers and acquisitions while still completing previously announced integrations. *Fourth,* contemporary M&As are predominantly about realizing synergy and achieving rationalizations. These actions often result in difficult integration processes characterized by conflicts of interest, organizational resistance and various kinds of power play. *Fifth*, there are increasing numbers of cross-border deals, and differences in geography and culture can result in specific kinds of challenges, particularly with identity and language. These five trends add greatly to the complexity of merging organizations and imply specific problems for subsequent integration processes (Angwin & Vaara, 2005). For example, Ravenscraft and Scherer (1989) found that the profitability of target firms actually declined after an acquisition, suggesting that implementation difficulties most likely play a critical role in determining the eventual performance of an acquisition (Datta, 1991).

Mergers and acquisitions affect many stakeholder groups, including shareholders, consumers and employees. Each group has their own issues and concerns regarding the impact of the M&A. Shareholders are concerned because mergers and acquisitions can profoundly impact investments, particularly the investments of an acquired firm. The stock prices of an acquiring firm often decrease in the days and months following an acquisition announcement. An example of this was when DaimlerChrysler acquired a controlling stake in Mitsubishi Motors in 2000. Industry experts and analysts alike questioned the value of the acquisition and DaimlerChrysler shares decreased by 2.7% in the days immediately following the announcement (Eschen & Bresser, 2005). Consumers feel the impact of a merger when their neighborhood bank, for example, becomes part of a larger organization, which may give the perception of being less personal (Napier, 1989). A study by Marquis and Lounsbury (2007) examined this very idea. In their study of U.S. community banks that were acquired by large national banks they found that consumers, citizens, politicians and banking professionals were often very resistant to large bank acquisitions and that the acquisitions led to the founding of new community banks in smaller centres. Not only were consumers interested in moving to smaller, more personal, independent banks, but so too were banking professionals. Employees, in particular, often find an acquisition difficult, especially when there are layoffs or major changes involved in the combining of the organizations. Acquisitions have come to be associated with lowered morale, job dissatisfaction, unproductive behaviour, acts of sabotage and petty theft, increased labour turnover and absenteeism rates, and worsening strike and accident rates (Altenbdorf, 1986; Meeks, 1977; Sinetar, 1981).

As we can see, there is a sense that mergers and acquisitions are not particularly well understood in practice and that our understanding of the determinants of successful acquisitions is incomplete. Sirower (1997) and Schweizer (2005) assert that this indicates the absence of adequate empirical research and thus question whether the prescriptive integration approaches by Haspeslagh and Jemison (1991a; 1991b), Nahavendi and Malekzadeh (1988), and Napier (1989), address the complexity of the post acquisition integration process. These integration issues are discussed next. Using the available literature, I first examine how best to integrate the two merging firms, and then turn to how best to integrate clients and professional staff and partners. Important aspects in the area of integration are the concepts of strategic fit, organizational fit and communication. All of these items play a role in the strategic framework developed as part of this thesis.

Integration of the Firms

After an acquisition has been announced, the best way to integrate the two firms must be determined. *Integration* is usually defined as some combination of assets and people of both the buyer and target firms (Schweiger & Goulet, 2000). There are different ways in which assets and people can be combined or integrated. Four approaches described below are by Schweiger (1999) and are based on functions, geographical areas and product lines. The first, *combination*, is the extent to which the separate functions and activities of both the acquirer and the target firms are physically consolidated into one. The combination approach is one of the most common methods of integration utilized by organizations. Second, *standardization* is the extent to which the separate functions and activities of both firms are standardized and formalized, but not physically consolidated (e.g. separate operations may be maintained, but the operations are made identical). This is typical when acquirers formally transfer best practices across firms. Third, *coordination* is the extent to which functions and activities of both firms are coordinated (e.g. one firm's products are sold through the other firm's distribution channels). Finally, *intervention* is the extent to which intercessions are made (i.e. replace management or drop unprofitable products) in the acquired firm in order to turnaround poor cash flow or operating profits. The acquisition examined as a part of this study utilizes the combination format at all four of the office sites examined.

There has been increasing academic interest in the area of post-merger organizational integration processes. Scholars previously interested in assessing which acquisition choices led to success (Fowler & Schmidt, 1989; Kusewitt, 1985) or what types of mergers and acquisitions (related or unrelated) led to better synergy or financial performance (Chatterjee, 1986; Lubatkin, 1983; 1987; Porter, 1987) also became interested in integration issues (see Shrivastava, 1986) because of the poor performance outcomes of many M&As. Integration processes have been seen as crucial in terms of understanding the performance outcomes of mergers and acquisitions (Gertsen et al., 1998; Haspeslagh & Jemison, 1991a; Haspeslagh & Jemison, 1991b; Larsson & Finkelstein, 1999; Macguire & Phillips, 2008; Pablo, 1994).

Many integration studies have focused on determining how management brought about synergistic benefits from joining previously separate organizations (Larsson, 1990; Lindgren, 1982); created value (Haspeslagh & Jemison, 1991b); transferred capabilities from one organization to another (Laamanaen, 1997); or enhanced learning (Leroy & Ramanantsaa, 1997). Researchers also listed obstacles to integration from a managerial perspective (Haspeslagh & Jemison, 1991a; Haspeslagh & Jemison, 1991b; Pablo, 1994). For example, Haspeslagh and Jemison (1991b) illustrated how determinism, value destruction and leadership vacuums were fundamental impediments to integration. A central theme in integration research is that to achieve synergistic benefits, managers must consider all possible reactions to a merger that can occur in an organization and try to achieve the best fit possible. Some of these synergistic benefits come from achieving strategic and organizational fit. The impact of both types of fit is discussed in the next section.

Importance of Strategic and Organizational Fit

Managers often under-manage the planning and implementation of acquisitions (Jemison & Sitkin, 1986; Marks, 1982; Nahavendi & Melkzadeh, 1988; Napier, 1989). The problem of under-managing the acquisition process is usually caused by insufficient awareness of the inherent dynamics of the M&A process, as well as not understanding the potential difficulties that may arise during implementation. For example, during the planning stages of the merger, more attention is often placed on achieving *strategic fit*[3], i.e. development of markets, synergies to be gained from complementary technical expertise or expected economies of scale, rather than *organizational fit*[4], i.e. management styles, culture, organizational systems, (Greenwood, Hinings & Brown, 1994). Yet, organizational fit is very important because it influences the ease with which two organizations can be assimilated after an acquisition and assimilation is an important aspect of successful post-acquisition integration. Larsson and Finklestein (1990) found organizational fit to be the single most important

[3] Strategic fit is defined as the extent to which the activities of a single organization or of organizations working in partnership complement each other in such a way as to contribute to competitive advantage. The benefits of good strategic fit consist of cost reduction because of economies of scale, and the transfer of knowledge and skills. The success of an acquisition may be affected by the degree of strategic fit between the organizations involved (http://dictionary.bnet.com/definition/strategic+fit.html).

[4] Organizational fit influences the ease with which two organizations can be assimilated after an acquisition. The benefits of organizational fit are because of the amount of synergy realization after an acquisition. Organizational fit impacts culture, management styles and organizational systems.

predictor of synergy realization (which directly influences performance) after an acquisition. Organizational fit requires significant management time "combining similar processes, coordinating business units that share common resources, centralizing support activities that apply to multiple units, and resolving conflicts among business units" (Hitt, Harrison & Ireland, 2001: 86).

Both strategic fit and organizational fit impact acquisition performance. Although there have been numerous studies on acquisition performance. (e.g. see meta-analyses by Datta, Pinches & Narayanan, 1992; and King, Dalton, Daily & Covin, 2004) these studies have provided only limited insights into the factors that influence acquisition performance and have not explained why almost half of all acquisitions fail to fulfill prior expectations. Generally speaking, these studies have focused on strategic fit issues related to the market for corporate control, especially its competitiveness (i.e. mode of payment, type of transaction, and number of bidders) (Datta, 1991).

Other studies that examined acquisition performance consist of Hitt et al.'s (1998) study of successful versus unsuccessful acquisitions. The successful acquisitions increased financial performance and achieved greater investment in research and development (R&D) while the unsuccessful acquisitions produced poor financial performance and reductions in R&D investment (Hitt et al., 1998). Additionally, Hitt et al. (1998) found that the twelve successful firms they studied shared eight attributes: friendly acquisitions; low to moderate debt; change experience; emphasis on innovation; focus on the core business; careful selection of targets;

and financial slack. The twelve unsuccessful firms shared six attributes: large or extraordinary debt; inadequate target evaluation; ethical concerns/opportunism; structure changes; multiple acquisitions/lack of control and diversification. Most significant was their finding that no single attribute alone could explain the acquisition's success or lack thereof (Hitt et al., 1998). This can be attributed to the complexity of the M&A process and the importance of both strategic and organizational fit in the overall success of acquisitions. I now turn to the integration of clients and employees (social and human capital) in the mergers and acquisition process. Communication plays a significant role in the success of mergers and acquisitions and as we will see later, communication also carries significant impact in the success of social and human capital transfer as well.

Integration of Clients and Employees

Many acquisitions are undertaken to take advantage of the existing resources of the target firm. These resources consist of the target firm's clients and employees (i.e. their knowledge and experience). Consequently, in order to achieve effective resource transfer between acquired and acquiring firms, the individuals and groups who contain the most valuable knowledge and social capital within the firm must remain with the acquiring firm and co-operate with resource sharing initiatives. In professional service firms, these groups consist of the firm's clients, as well as the professional staff and partners. In order to keep these important client and professional staff and partner groups, it is imperative that there is extensive effort placed in the area of communication.

Acquisitions almost inevitably create behavioural difficulties. Jemison and Sitkin wrote: “the mere occurrence of an acquisition is a sure predictor of a myriad of people-related problems, especially for members of the acquired firm” (1986: 147). Studies that focus on the “human side” of M&As (e.g. Buono & Bowditch, 1989; Cartwright & Cooper, 1993; Nahavandi & Malekzadeh, 1993; Schweiger & DeNisi, 1991) have been motivated by a general interest in the social consequences of mergers and acquisitions and explored the areas of stress, uncertainty and anxiety experienced by people involved in post-merger or post-acquisition change processes. People related issues during mergers and acquisitions consist of high levels of stress, tension and anxiety (Buono et al., 1988; Hayes, 1979; Pritchett, 1985, Schweiger & DeNisi, 1991), financial uncertainty (Sutton, 1983), job dissatisfaction and diminished productivity (Barrett, 1973; Buono et al., 1988; Levinson, 1970) and employee turnover (Hayes, 1979; Walsh, 1988).

Three forces that contribute to employee turnover (both top management and employee) are uncertainty among top managers, culture changes and loss of input and control. First is the issue that mergers and acquisitions breed uncertainty among top managers (Simmons, 1984). Merger and acquisition analysts expect to see higher than normal top management turnover rates following a merger and acquisition, more often among related acquisitions than unrelated acquisitions. The parent company still requires the institutional leadership provided by the target’s top management in an unrelated acquisition, as these managers are familiar with the acquired organization’s environment and provide legitimacy in that environment. However, in a related acquisition there is usually duplication of services, knowledge and positions. For example, there will only be need for one management-consulting partner in the newly combined firm, so very often the acquired management-consulting partner will leave or be asked to leave.

Duplication of services or not, top managers/partners often leave acquired firms within three years of the acquisition (Napier, 1989). This is often because the acquiring firm imposes their own style of management on the target firm, which may result in a loss of identity among the target firm management (Hirsch & Andrews, 1983). This outcome usually results in increased anxiety, distrust and conflict, culminating in a "merger standstill" with declining productivity and poor post-acquisition performance (Ivancevich, Schweiger & Power, 1987).

The uncertainty caused by acquisitions can impact employee turnover as well. Employees may resist change by withdrawing and reducing their commitment to the organization (Newman & Kryzstofiak, 1993). Staff turnover often increases sharply, as employees choose to leave rather than making a commitment to the new firm (Cartwright & Cooper, 1990; Hambrick & Canella, 1993; Walsh, 1988).

Secondly, all organizations have their own unique cultures (Smirich, 1983). Buono, Bowditch and Lewis's (1985) detailed analysis of a bank merger revealed that the merging of two distinct cultures could produce feelings of hostility and significant discomfort or culture shock. Top managers and staff who are either unwilling or unable to adapt to a possibly profound culture shock are likely to leave that organization.

Lastly, mergers and acquisitions have been argued to reflect a market for corporate control, where companies compete for the right to determine the management of a target company's resources (Fama & Jensen, 1983). Top managers and employees who feel that their input and control have been devalued or taken away are more likely to leave an organization after an acquisition. Sometimes top managers leave because of anticipated changes in human resource practices affecting performance expectations or because of a perception of lack of control following the acquisition. For example, managers' rank or position may be unclear for some time during the transition and if a manager (or any employee for that matter) is uncomfortable with such uncertainty, they might gain control by leaving for a job that has clearer expectations. In addition, some managers decide to leave during an acquisition because they have worked for a large organization in the past and prefer the autonomy of a smaller firm.

One of the best ways for management to deal with the anxiety that follows a merger or acquisition announcement is to communicate as soon as possible about all the anticipated effects of change (Schweiger & DeNisi, 1991). Failure to do so will increase uncertainty, as well as client and employees' willingness to rely upon rumours, which can lead to further increased anxiety. This can lead to stress, job dissatisfaction, low trust in the organization and lower commitment, as well as increased intentions to leave the organization (Ashford, Lee & Bobko, 1989;

Bowditch & Lewis, 1985; Schweiger & Ivancevich, 1985). These dysfunctions can diminish productivity and increase turnover and absenteeism.

In addition, while firms may "acquire" access to the assets of another firm, it cannot be said to "own" the knowledge (with the exception of patentable intellectual property) that resides within individuals or the social capital that exists between individuals. Synergistic potential can only be realized through the effective integration of an acquired firm (Barkema & Schijven, 2008; Haspeslagh & Jemison, 1991a; Haspeslagh & Jemison, 1991b). Achieving synergy is a complex task that requires considerable management time and attention "combining similar processes, coordinating business units that share common resources, centralizing support activities that apply to multiple units, and resolving conflicts among business units" (Hitt et al., 2001: 86). However, the very act of transferring resources can destroy them, either because the resources are embedded in individuals who leave the firm (Coff, 1997) or because they are located in a specific organizational context that changes during the process of integration (Nahavandi & Malekzahdeh, 1979; 1988).

In general, the literature on acquisition success has paid little attention to the impact of the acquisition on the target firm's customers. Although acquisitions are often undertaken because the acquirer wants to broaden its customer base, many times acquirers neglect the target firm customers. Even if the intention is to retain customers, many forces conspire to divert the acquirer's attention (Dalziehl, 2007). First, if the acquirer acquired the firm for the technology it offered, attention may be on the retention of the target firm's scientists and engineers. Second, the target firm may only have a few clients relative to the many clients of the acquirer, and so they may be regarded as insignificant. Primary motivations that entrepreneurs cite for selling their firms are to access the acquirer's complementary assets (Graebner & Eisenhardt, 2004). In such a case the acquirer may conclude that it is better to focus on introducing the target's products to its existing clients, than to invest in maintaining the target firm's existing customer relations. The target firm's clients may offer lower revenues and profit margins than those to which the acquirer is accustomed. The acquirer may also be of the view that the technology or services can be repackaged or bundled into a higher-priced offering, and sold to customers that are less price-sensitive (Dalziel, 2007).

Switching costs can also be an obstacle for clients that should be considered by acquiring firms. Switching costs are costs that consumers incur when switching from one service provider to another. The higher these costs are the more difficult it is to execute the switch. Types of switching costs include: exit fees, search costs, emotional costs, equipment costs, installation and start-up costs, financial risk, psychological risk, and social risk. Often these costs are easy to estimate. Exit fees include contractual obligations that must be paid to the current supplier and compensatory damages that may be awarded for breach of contract. Often, vendors combine sign-up incentives with penalties for early cancellation. Search costs and learning costs, the effort and expense required to find an alternative supplier and learn how to use the new product, are also usually expected.

The psychological, emotional, and social costs of switching are often overlooked or underestimated by both buyers and sellers. Gourville (2003) suggested that consumers for the most part do not immediately switch from a product they currently use to the latest improved product, even if the cost difference is minimal, because consumers are sensitive to the *relative* advantages and disadvantages of any change from the status quo. Therefore, a new, improved product must be significantly better than what the consumer is currently using before he or she will consider making a switch.

In order to ensure acquisition success it is necessary then for an acquiring firm to consider employee and client turnover. If employees leave, years of experience can be lost and the cost of replacing employees can be high. If clients leave, to follow employees who have gone somewhere else, or because they feel that there are better alternatives elsewhere, replacing these lost relationships can be difficult and may impact the overall success of the acquisition. These relationships constitute social capital and it is my belief that the study of social capital is key to understanding how to ensure success of acquisitions, particularly in the context of professional service firms, yet this topic has been neglected within the research on mergers and acquisitions. This neglect has resulted in a gap in understanding regarding what needs to be done to ensure acquisition success. In the next section, I review the origins and define the concept of social capital; examine how academics and researchers have utilized the concept; and draw upon the various social capital theories. This review allows for a greater understanding of the factors that contribute to successful social capital transfer and plays a significant role in the development of the framework discussed in Chapters Four and Five.

Social Capital

Adler and Kwon (2002) outlined three types of relations that are important to organizations. First, market relations consist of products and services that are exchanged for money. Second, hierarchical relations are comprised of obedience to authority in exchange for material and spiritual security. Third, social relations encompass the favours and gifts that are exchanged among actors. Social relations are the basis of social capital and the focus of this section.

Origins and Definition

The concept of social capital has existed ever since small communities formed and humans interacted with the expectation of reciprocation and trust. Although social capital is a term that has only recently started garnering attention in academic literature, it in fact dates back more than ninety years to the writings of Lyda J. Hanifan, a school superintendent in West Virginia (Woolcock & Narayan, 2000: 228). Hanifan contrasted social capital with material goods, stating: "I do not refer to real estate, or to personal property or to cold hard cash, but rather to that in life which tends to make these tangible substances count for most in the daily lives of people: namely goodwill, fellowship, mutual sympathy, and social intercourse among a group of individuals and families who make up a social unit…." (1916: 130). After Hanifan, the mention of social capital disappeared from the literature for several decades, but reemerged in the 1950s in community studies. These studies (for a detailed review of these studies, see Jacobs, 1965) highlighted the idea that strong, vibrant communities built on trust, cooperation and collective action required strong, personal relationships developed over time (Nahapiet & Ghoshal, 1998). Early usage also indicated the significance of social capital as a set of resources inherent in family relations and in community social organizations useful for the development of young children (Loury, 1977). Since its early use, social capital has been seen to have influence on a wide range of social phenomena, including the development of human capital (Coleman, 1988), the economic performance of firms (Baker, 1990), geographic regions (Putnam, 1993; 1995), and nations (Fukuyama, 1995).

In simple terms, social capital is about the value of social networks, bonding similar people and bridging between diverse people, with norms of reciprocity (Dekker & Uslaner, 2001). It involves numerous types of resources (i.e. information, ideas, financial capital, power, goodwill, trust and cooperation) that are available to individuals and organizations through personal and business networks. Networks are defined as the pattern of ties linking a defined set of actors. Individuals are described in terms of his or her links with other people in the network (Seibert et al., 2001: 220). Managing these ties requires ongoing attention and resources, of which individuals have limited amounts. Transactions involving social capital tend to be characterized by unspecified obligations, uncertain time horizons, and the possible violation of reciprocity expectations

(Bourdieu, 1986). Similar to other types of resources, social capital’s sources lie in the social structure in which the actor is located.

The term "capital" as part of the concept implies a resource or factor input that facilitates production, but is not consumed or otherwise used up in production (Coleman, 1994). Unlike traditional forms of capital, social capital is not depleted by use, but in fact, depleted by non-use. The other half of the concept, "social", refers in this context to aspects of social organizations, ordinarily informal relationships, established for non-economic purposes, yet with economic consequences. Individuals may rationally invest in social capital, and the formation of friendships and acquaintanceships can be seen as the resulting investment. However, there will be an underinvestment in most forms of social capital because social capital is inherently social, and most forms of social capital come into being through the combined actions of several or many people. The decisions of each have consequences for all (Coleman, 1994).

Social capital lends itself to multiple definitions, interpretations and uses. For this reason, there is no one agreed upon definition of social capital and the particular definition adopted by a study will depend on the discipline and level of investigation (Robison et al., 2002). For researchers, the term “social capital” is popular partly because of the broad range of outcomes it can explain. However, the multiplicity of uses has led to a multiplicity of definitions, some of which seemingly contradict each other. For illustration purposes, Table 1 summarizes a sample of the definitions of individual, group, and organization-level social capital available in the literature.

TABLE 1: INDIVIDUAL, GROUP AND ORGANIZATIONAL LEVEL SOCIAL CAPITAL DEFINITIONS

Definition	Author
Individual Social Capital:	
1. "The aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition."	Bourdieu, P. (1986: 248)
2. "The relationships between individuals and organizations that facilitate action and create value."	Adler & Kwon (2002: 23)
3. "A resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationship among actors."	Baker (1990: 619)
4. "An individual's personal network and elite institutional affiliations."	Belliveau, O'Reilly & Wade (1996: 1572)
5. "Friends, colleagues, and more general contacts through whom you receive opportunities to use your financial and human capital."	Burt, R. (1992: 9)
6. "The brokerage opportunities in a network."	Burt, R. (1997: 355)
7. "The number of people who can be expected to provide support and the resources those people have at their disposal."	Boxman et al. (1991: 52)
8. "The potential resources embedded within, available through, and derived from an individual's network of personal relationships."	Coleman, J.S. (1990: 297)
9. "The sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network."	Nahapiet & Ghoshal (1998: 243)
10. "The ability of actors to secure benefits by virtue of membership in social networks or broader social structures."	Portes (1998: 6)
11. "A person's or groups' sympathy towards another person or group that may produce a potential benefit, advantage and preferential treatment for another person or group of persons beyond that expected in an exchange relationship."	Robison, Schmid & Siles (2002)
Group Social Capital:	
1. "The set of resources made available to a group through group members social relationships within the social structure of the group itself, as well as in the broader and formal and informal structure of the organization."	Oh, H., Labianca, G. & Chung, M-H. (2006)
2. "The ability of people to work together for common purposes in groups and organizations."	Fukuyama (1995: 10)
3. "Social capital can be defined simply as the existence of a certain set of informal values or norms shared among members of a group that permit cooperation among them."	Fukuyama (1997)
Organizational Social Capital:	
1. "A resource reflecting the character of social relations within the firm."	Leana & Van Buren (1999)
2. "Features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit."	Putnam, R. (1995: 67)

The first contemporary analysis of social capital was introduced by Pierre Bourdieu who defined the concept as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition" (Bourdieu, 1986: 248). Bourdieu's writings on social capital have focused on the benefits accruing to individuals by virtue of participation in groups. Bourdieu (1986) argued that these networks provided members with 'collectivity-owned capital', a credential that entitled them to some type of credit. This credit sometimes comes in the form of an obligation arising from feelings of gratitude, respect and friendship or from the guaranteed rights derived from membership in a family, a class or a school. "Bourdieu's definition makes clear that social capital is decomposable into two elements: first, the social relationship itself that allows individuals to claim access to resources possessed by their associates and second, the amount and quality of those resources" (Portes, 1998: 4).

Bourdieu began by distinguishing between three forms of capital: economic, cultural and social. A basic concern was to explore the processes making for unequal access to resources and differentials in power and the ways in which these fed into class formation and the creation of elites. The possession of social capital did not necessarily run alongside that of economic capital, but in Bourdieu's view it was an attribute of elites, a means by which particular networks held onto power and advantage.

James Coleman has also been a very integral part of the contemporary thinking on social capital. Coleman is credited with developing the first comprehensive theory of social capital in the 1980s. The theory was founded on the premise that a network provides value to its members by allowing them access to the social resources that are embedded within the network (Florin, Labatkin & Schulze, 2003: 376). Coleman defined social capital as the "potential resources embedded within, available through and derived from an individual's network of personal relationships" (1990: 297). This traditional view of social capital stressed the positive effect of cohesive social ties or 'network closure' on the production of social norms and sanctions that facilitate trust and cooperative exchange. According to Coleman, members of a closely-knit network trust each other to honour obligations. This diminishes the uncertainty of exchanges and enhances the ability of the members of the network to cooperate in the pursuit of their interests. Resources obtained through social capital have, from the point of view of the recipient, the character of a gift. It is important to distinguish the resources themselves from the ability to obtain them by virtue of membership in different social structures (Portes, 1998: 5).

Although Bourdieu might agree with Coleman that social capital in the abstract is a neutral resource, Coleman's work tends to show how it can be used practically to produce or reproduce inequality, demonstrating for instance how people gain access to powerful positions through the direct and indirect employment of social connections (Portes, 1998). John Field (2003) added an interesting dimension in that he felt that Bourdieu's treatment of social capital is somewhat circular as it is based on the argument that privileged individuals maintain their position by using their connections with other privileged people. Coleman's view is subtler in that he discerns the value of connections for all actors, individual and collective, privileged and disadvantaged. But Coleman's view is also overly optimistic; as a public good, social capital is almost entirely benign in its functions, providing for a set of norms and sanctions that allow individuals to cooperate for mutual advantage and with little or no "dark side". Bourdieu's usage of the concept, by contrast, allows only for a dark side for the oppressed and a bright side for the privileged (Field, 2003: 28)

Coleman's interest in social capital grew out of his empirical studies in education (Marsden, 2005). For Coleman, social capital referred to the features of social structure that facilitate action. Among these are systems of trust and obligations, networks disseminating information, norms accompanied by sanctioning systems, and centralized authority structures arising through transfers of control (Coleman, 1988: S98). This variety of forms of social capital makes it clear that Coleman regarded social capital as a term for "useful social organization: rather than as an identifiable variable (Marsden, 2005: 15).

No matter whether they focus on the relationships offered by social capital or the potential resources to be accessed, most definitions share two common elements: 1) social capital arises from the structure of relations between and among actors in a network and 2) an actor has the ability to access these networks or social-structural benefits (Fischer & Pollock, 2004: 468). These two elements relate to

Nahapiet and Ghoshal's (1998) description of the three facets of social capital: structural, relational and cognitive that will be discussed later in this section.

Most definitions of social capital encompass two important factors. One, the goodwill of others toward an individual as a valuable resource and two, the social resources inherent in relationships may be used to pursue economic ends (Burt, 1992; Coleman, 1988). Although all the above definitions of social capital have merit, here is growing consensus that social capital stands for *the ability of actors to secure benefits by virtue of membership in social networks or other social structures* (Portes, 1998: 6). After careful thought, I have chosen to utilize Portes' definition for the purposes of this dissertation. It was chosen because it distinguishes the social capital available to an actor by virtue of already established ties from the social capital an actor can mobilize by creating new ties (Adler & Kwon, 2002: 23). This differentiation in established and new ties will be especially relevant when I discuss the ability of social capital to transfer during professional service firm acquisitions.

Role of Social Capital in Contemporary Society

Social capital arises from both interpersonal and organizational ties (Adler & Kwon, 2002; Burt, 1992). Social capital arising from an individual's interpersonal ties constitutes the set of resources that are available because of the unique experiences, characteristics and human capital of the individual (e.g., Bourdieu, 1980; Coleman, 1990). These relations comprise familial relations, friendship ties, relationships developed because of membership in other organizations, experiences unrelated to the organization in question, and ties with others inside or outside the organization that have transcended the boundaries of purely organizational interactions (e.g., social interactions and friendships with co-workers). All of the above constitute resources and relationships that an organization is subject to losing access to if the individual leaves the organization.

Social capital arising from organizational ties constitutes those resources available through the formal and informal structure of the organization that exist independent of the individual holding the position (Oh et al., 2006). These organizational ties consist of buyer-supplier relationships, strategic alliances and memberships in industry associations. These ties enable firms to exchange a variety of information, knowledge and other forms of capital (Koka & Prescott, 2002). These ties assist the firm by increasing the availability of resources such as information, technology, knowledge, financial capital, and distribution networks (Arregle et al., 2007).

Social capital can be a valuable additional asset for managing inter-organizational relationships since it encourages a firm's associates to be more cooperative. In a closed network, firms have access to social capital, which assists in the development of norms for acceptable behavior and the diffusion of information about behavior (Walker et al., 1997). In an open network, individuals or firms have no social capital on which to rely and if not extensively connected to others in the network, norms regarding cooperation are more difficult to achieve and information on behavior diffused more slowly (Walker et al., 1997). As a result, networks perform an important function in maintaining accepted rules and norms and provide a balance between individual and group preferences. As a downside, they can also restrict innovation and the ability to respond to changed circumstances (Robison & Flora, 2003).

In addition to social capital residing at the individual or organizational level, social capital can be looked at using a content or process perspective. The content perspective consists of three different dimensions of social capital: structural, cognitive and relational. Nahapiet and Ghoshal (1998) describe the structural dimension of social capital as the network of connections between actors (i.e. whether the actors know one another). Among the most important facets of this dimension is the presence or absence of network ties between actors (Scott, 2000). The location of an actor's contacts within the social structure provides certain advantages for the actor. People use their personal contacts to get jobs, obtain information, or to access specific resources. Many empirical studies have identified social capital with some aspect of the firm's structural position (i.e. Burt, 1992; Walker et al., 1997). In this research study, the structural dimension is reflected in the personal connections between the professional staff and partners and the clients they work with.

Cognitive social capital is the level of shared mental schema of the two linked actors. This conceptualization recognizes that both the tie and the nature of the tie are important (Nicholson, Alexander & Kiel, 2004: 54). The cognitive paradigm is embodied in attributes like shared representations and interpretations that facilitate a common understanding of collective goals and a proper way of acting. Inside an organization, this facilitates individual and group actions that can benefit the entire organization (Tsai & Ghoshal, 1998: 465). In this research study, the cognitive paradigm is reflected in the shared project goals between the professional staff and partners and the clients they work with.

Finally, the relational dimension is a function of repeated relationship ties between partners (i.e. the nature and quality of the connections) and refers to assets (such as trust or trustworthiness) that are embedded in these relationships. Trust can induce joint efforts; therefore, a trustworthy actor is likely to get another actor's support for achieving goals in a way that would not be possible if trust did not exist (Tsai & Ghoshal, 1998: 465). For example, a founder of an entrepreneurial venture is critical to the venture not only for their leadership, but also for the web of relationships that they build. Such relationships form a critical part of the organization's social capital and can be important when dealing with suppliers or when developing relationships with new customers and new employees (Bamford, Bruton & Hinson, 2006). In this study, the strong relationship ties between professional staff and partners and the clients they work with represent the relational dimension. These relationships enable the clients to continue working with the professional staff even after the PSF has undergone an acquisition.

From a process perspective, Nahapiet and Ghoshal (1998) propose that four dynamic factors influence the development of social capital: stability, interaction, interdependence, and closure. These factors help shape the creation and development of a group's social capital (Arregle, Hitt, Sirmon & Very, 2007). Stability is critical because social capital reflects the accumulation of goodwill over time (Bourdieu, 1986). Increased stability allows for a level of continuity in social structures, which in turn increases the clarity and visibility of mutual obligations (Misztal, 1996), as well as the development of trust and norms of cooperation (Granovetter, 1985; Hitt et al., 2002; Putnam, 1993). Interaction is important because increased interactions between actors aid the development and maintenance of mutual obligations in a social network (Bourdieu, 1986).

Developing and protecting social capital requires interdependence between the members of the network; social capital erodes when people in the network become more independent of one another (Coleman, 1990). Higher levels of social capital are usually developed in contexts with substantial mutual interdependence (Nahapiet & Ghoshal, 1998).

Closure is the extent to which actors' contacts are interconnected (Adler & Kwon, 2002), which affects the observance of behavioural norms (Portes, 1998). In essence, closure refers to the existence of a sufficient level of ties between members such that the adherence to norms is highly likely (Coleman, 1988). For example the existence of strong group norms facilitates transactions without the need for cumbersome legal contracts or control procedures (Coleman, 1988). Therefore, closure refers to the existence of dense social network boundaries that distinguish members ("us") from non-members ("them") (Bourdieu, 1994).

From the content perspective, this thesis pays particular attention to the relational aspect of social capital motivated by the impact and disruption on relationships that is caused because of an acquisition between organizations. From a process perspective, this thesis utilizes all four of the factors discussed above: stability, interaction, interdependence and closure. Taken together, these four factors affect the flow of social capital that in turn influences the supply of social capital that is available. Alterations in any of these factors will affect the supply of social capital over time (Arregle et al., 2007). These alterations can impact an individual or organization's ability to maintain, reinforce, modify or transfer social capital after an acquisition. In the next section an overview of the four dominant social capital theories is provided in order to gain a greater understanding of the factors that contribute to successful social capital transfer.

Social Capital Theory

Social capital has been privy to multiple interpretations and usage that span multiple theoretical traditions (Portes, 1998). Four social capital theories that have been widely used in studying inter-organizational networks from both an individual and organizational level are Granovetter's theory of weak ties (1973; 1974; 1992), Burt's structural holes theory (1992; 1997a; 1997b; 2000); Lin, Ensel and Vaughn's (1981) social resources theory and social embeddedness theory which is a combination of all of the above (Baker, 1990; Coleman, 1988; Granovetter, 1985; Podolny, 1993; Powell, 1990; Uzzi, 1996; 1997, 1999). Each of these theories will be compared and contrasted briefly below.

Mark Granovetter (1973: 974) interviewed 282 professional and managerial men in Massachusetts and found that those who used interpersonal channels appeared to land more satisfactory and higher income jobs. From this study, Granovetter proposed a network theory for information flow. The hypothesis of "the strength of weak ties" was that weaker ties tend to form bridges that link individuals to other social circles for information not likely to be readily available in their own social circles. Weak ties are defined as loose relationships between individuals, as opposed to the strong ties that would be found in a nuclear family (Davidsson & Honig, 2003: 308). Strong ties offer social cohesion while weak ties offer the new resources an organization requires (i.e. information) (Wu & Choi, 2004: 327). Strong ties help firms enhance their business performance through the development of trust, information flows and the provision of solutions to problems. Weak ties are useful in obtaining information that would be otherwise unavailable or costly to locate (Davidsson & Honig, 2003: 308). New firms might rely on weak ties such as membership in a trade organization in order to network with potential suppliers or customers. An example of strong ties that a new firm might rely on would be a family member helping out for free during the start-up operations (Davidsson & Honig, 2003). An irony of network relations that perhaps goes against logic is that among social actors, "weak ties" often offer advantages over stronger ties. Granovetter (1973; 1974) uncovered the importance and effectiveness of comparatively weak ties among individuals in the job finding process. White-collar workers found better jobs, faster, through weak ties that bridged otherwise disconnected social groups. Although one would speculate that strong ties such as friendship or kinship would be an advantage, in reality weak ties provide links to different and more diverse sets of network contacts and ultimately provide a greater pool of job leads (Pfeffer, 1997). Fernandez and Weinberg (1997) and Fernandez, Castilla and Moore (2000) also found that personal contacts and using employee referrals when hiring were very effective and yielded significant economic returns for the organization.

Granovetter's theory of weak ties is similar to Burt's 'structural holes' theory (1992; 1997a; 1997b; 2000) in that both focus on the importance of network structure and argue that 'open' rather than 'closed' networks are the most important (Walker et al., 1997). Open versus closed networks are essentially the same as weak versus strong ties. Structural holes "refer to missing relationships that inhibit information flow between people" (Burt, 2007: 119). A hole "is a buffer, like an insulator in an electric circuit" (Burt, 1992: 18). To Burt, there are opportunities for organizations and individuals to exploit the "structural holes" found between dense pockets of relationships in the networks (Walker et al., 1997: 110). This means that low density networks (i.e. networks where few of the members are mutual friends) result in better sources of valuable information (Mouw, 2003). Individuals with relationships to otherwise disconnected social groups are positioned for entrepreneurial action, building bridges between groups where it is valuable to do so (Burt, 1997: 355). The result is simple: better-connected people do better (Burt, 2000: 3). Numerous studies have shown that managers whose social networks span structural holes have a competitive advantage over peers confined to a single group of interconnected people (Burt, 2007: 119). Burt also asserted that partner selection, rather than social capital, determined effective cooperation between firms (Burt, 1992: 16).

Burt more recently distinguished between the concepts of *direct brokerage*, which involves moving information between direct contacts and *secondhand brokerage*, moving information between friends of friends or between people to whom one is connected indirectly (Burt, 2007: 121). Burt found that secondhand brokerage had little or no value in a variety of circumstances. This is partly caused by information arbitrage; there is no competitive advantage to brokering interpersonal connections if full information is readily available. In other words, opportunities for secondhand brokerage can be diminished when there are dense connections among the indirect contacts themselves (Burt, 2007). Direct brokerage, on the other hand, involves the movement of information while relying on your own contacts within the group. Previous research (Burt, 2007) has documented positive returns to direct brokerage, including good ideas, more positive job evaluations, higher compensation, and faster promotion. Burt (2008) also found that that social capital is concentrated in a person's individual network of direct contacts. To take advantage of this social capital, one needs to maintain and nurture these contacts. To transfer these contacts, the individual acting as the direct broker is required to introduce the new parties and assist in the initial communication. The new relationship needs time to develop and a sense of trust must also be apparent between the two newly introduced parties. This finding should have significant impact in professional service firms. Opportunities for direct brokerage should be very high when a firm is undergoing an acquisition.

Both Granovetter and Burt's emphasis on the strength of weak ties relates to the notion that better-connected people have more contacts and therefore more opportunities before them. Yet, in contrast to Granovetter, who emphasized the characteristics of the ties between actors, Burt did not focus on the characteristics of the ties. Instead Burt's structural hole theory postulates that individuals who possess many structural holes within their network are in an advantageous position, both from a power position and with regards to upward mobility (Burt, 1992). Burt felt that his structural hole theory addressed the bridging properties more succinctly than did the weak tie theory and as a result provided a stronger foundation for theory (Friedel & Hatala, 2009).

In a contrasting point of view, Lin, Ensel and Vaughn's (1981) social resources theory emphasized the nature of the resources embedded in a network. Lin (1999) defined social capital as an investment in the "resources that are accessible through one's direct and indirect ties" (468) and can increase the expected returns of beneficial actions of others. In other words, social capital refers to the use of social resources, such as relationships and ties, and the expected returns from these social investments that are used to generate individual assets and opportunities (i.e. better job, increased pay, career decision) (Friedel & Hatala, 2009). By reaching up the status hierarchy, one obtains help from well-placed contacts "who are better able to exert influence on positions whose actions may benefit ego's interest' (Lin, 1999: 470).

In contrast to Granovetter and Burt which both focus on the strength of weak ties, this alternative stance can be labeled "the strength of strong ties". Lin et al. argued that it is not the weakness of a tie per se that conveys advantage, but the fact that such ties are more likely to reach someone with the type of resource required for an organization to fulfill its objectives (Wu & Choi, 2004). Lin (1999) suggested that individual's benefit from social networks by receiving improved information flow, strengthened decision-making, improved use of social resources, and reinforcement of identity and recognition. For example, entrepreneurs who have opportunities to develop social networks and can access the resources inherent to them may feel that their contacts are responsive to their needs. As a result, they have greater resilience and are more motivated to stay in business (Friedel & Hatala, 2009).

A noteworthy study illustrating Lin et al.'s emphasis on strong ties is Light's (1984) study on the importance of rotating credit associations (RCAs) for the capitalization of Asian immigrant firms in the United States. RCAs are informal groups in which every member contributes a set amount to a common pool that is received by each participant in turn. Social capital comes from the trust that the participants have in the continuing contribution of others even after they receive their pooled allotment. Without such trust, no one will contribute and each will be deprived of this means to gain access to entrepreneurial capital.

According to social resource theory, it is advantageous for an organization to form many links with high status external partners who have a diverse set of experiences (Lin, 2001). The social resources embedded in such networks can signal potential stakeholders that a venture's business concept is legitimate. These social resources can provide an organization with the ability to attain, sustain, and even enhance its competitive advantage (Florin, Labatkin & Schulze, 2003). For example, Brian Uzzi's work on embeddedness in apparel firms in New York City found that "actors do not selfishly pursue immediate gains, but concentrate on cultivating long-term cooperative relationships that have both individual and collective level benefits" (1997: 693).

Underlying all of the above theories is the idea of social embeddedness (Baker, 1990; Coleman, 1988; Granovetter, 1985; Podolny, 1993; Powell, 1990; Uzzi, 1996; 1997; 1999). Social embeddedness refers to the fact that the players in an economic transaction do not exist in a vacuum, but rather in a system of social relationships. Economic attachments and institutions may shape perceptions, motivations and action, and thereby influence economic behaviour (Granovetter, 1985; 2005). People live within networks of relationships where information, ideas, passions and values are shared. Such sharing induces a homogenization of opinion and priorities, especially within primary groups where ties among the actors are strong (Homans, 1950). These affiliations can affect the types of information they receive, as well as their motives for profit and profit-sharing, generating new potential to shape the value created during a transaction (Uzzi, Lancaster & Dunlap, 2007: 94). Dissemination of new ideas or priorities typically comes from weaker and non-redundant ties that connect people to those with whom they are in less frequent contact. An involvement with strong, bonding ties such as those within dense networks or primary social groups is said to invoke solidarity, conformity and inertia, and to reduce the influence of weaker, bridging ties (LeBreton-Miller & Miller, 2008).

Over the past two decades, an increasing amount of research has utilized the embeddedness approach (Baker, 1990; Coleman, 1988; Granovetter, 1985; Podolny, 1993; Powell, 1990; Uzzi, 1996; 1997; 1999). The central premise of this research is that relationships between firms are embedded in the ongoing social relations between individual actors (Granovetter, 1985). Exchange relationships are more than a series of arms-length transactions between autonomous and anonymous actors (Broschak, 2004: 608). They become stronger over time and dissolution becomes less likely. Individuals also play an active role in exchange relationships.

The importance of social capital theory is apparent when we consider the many empirical studies that profess to demonstrate the importance of social capital in a wide-ranging set of socioeconomic situations (Durlauf, 2002; Krishna, 2001). Requena (2003) suggested that the importance of social capital lies in that it brings together several important sociological concepts such as social support, integration and social cohesion. Rothstein (2003) also supported this view with the statement that the real strength of social capital theory is the combination of macro-sociological historical structures with micro-level causal mechanisms, which is a rare feature in the social sciences. In the next section I examine the sources of social capital and its ability to be transferred. The concept of transferability is especially applicable to my study of acquisitions amongst professional service firms.

Social Capital Transferability

Similar to other forms of capital, social capital "is a long-lived asset into which other resources can be invested, with the expectation of a future flow of benefits" (Adler & Kwon, 2002: 21). Social capital has the potential to be a very valuable asset. It is productive and this allows the achievement of goals that would not be attainable in its absence (Leenders & Gabbay, 1999). Physical capital is emphasized by tools or machines; human capital by education, training or experience; and social capital by the existence of close interpersonal relationships among individuals (Bolino, Turnley & Bloodguard, 2002: 506). As a result, social capital can act as a substitute to or complement other resources. As a substitute, actors can sometimes compensate for a lack of financial or human capital because of their superior connections with others (Adler & Kwon, 2002).

Both Bourdieu and Coleman emphasized the intangible nature of social capital. Whereas financial capital is in a person's bank account and human capital is inside their heads, social capital exists in the structure of their relationships (Portes, 1998: 7). The key concept is that social capital is not an individual characteristic or personality trait, but a resource that resides in the networks and groups to which people belong (Mouw, 2006: 79). To possess social capital, a person must be related to others, and it is those others, not himself, who are the actual source of his or her advantage. Portes (1998: 7) also described social capital as primarily the accumulation of obligations from others according to the norms of reciprocity. Donors provide privileged access to resources in the expectation that they will be fully repaid in the future. This accumulation of social currency differs from a purely economic exchange in two ways. First, the currency with which obligations are repaid may be different from that which they were incurred in the first place. Second, the timing of the repayment is unspecified. If a schedule of repayment exists, then the transaction is more appropriately defined as a market exchange.

Norms of reciprocity are also dependent on social networks. Putnam (1993) stated that generalized reciprocity involves "not I'll do this for you because you are more powerful than I", or even "I'll do this for you now, if you'll do that for me now", but "I'll do this for you now, knowing that somewhere down the road, you'll do something for me" (1993: 182-183). Norms of reciprocity transform individuals from self-seeking, egocentric agents with little sense of obligation to others into members of a community with shared interests, a common identity, and a commitment to the common good (Adler & Kwon, 2002: 30). Coleman's work inspired the diffusion of the use of social capital theory in relation to the study of actors who are pursuing interest driven goals (Leenders & Gabbay, 1999). The importance of developing strong personal networks has since been expanded to help explain a variety of outcomes, including industry creation (Aldrich & Fiol, 1994), the development of human capital (Coleman, 1988), the economic performance of firms (Baker, 1990) and career success (Seibert, Kraimer & Liden, 2001).

Unlike other forms of capital, the parties in the relationship own social capital jointly and no one player has exclusive ownership rights (Coleman, 1990). Social capital is also goal specific. A large number of ties will not necessarily translate itself into social capital (Leenders & Gabbay, 1999). In addition, while other forms of capital have been linked primarily to the production of physical goods and services, social capital has the capacity to produce socio-emotional goods (Robison & Flora, 2003). Socio-emotional goods are expressed emotions between persons that validate and express caring, or provide information that increases self-awareness and self-regard. Socio-emotional goods satisfy essential human needs; they are valued in exchange and may sometimes be exchanged for physical goods and services. Objects that convey socio-emotional goods may consist of: pets, poems, photos, promises, preferential treatment, presents, letters, flags, traditions and institutions (Robison & Flora, 2003: 1188).

Social capital has both an internal and external aspect to it. Internal ties have often been described as 'bonding' or 'communal' forms of social capital, while external ties have been described as 'bridging' or 'linking' forms of social capital (Adler & Kwon, 2002). Through investment in building their network of external relations, both individuals and groups can gain benefits in the form of superior access to information, power and solidarity (Adler & Kwon, 2002). Social capital can enhance internal organizational trust through the bonding of actors, as well as bridging external networks in order to provide resources (Davidsson & Honig, 2003). Internal social capital enhances cohesiveness and facilitates the pursuit of collective goals (Fischer & Pollock, 2004), while creating the opportunity to act together (Adler & Kwon, 2002). To demonstrate the idea of internal social capital, Fischer and Pollock (2004) used the example of an IPO firm with a top management team that had worked together for a number of years. Their long working tenure allowed them to develop working patterns, routines and interpersonal relationships, all of which allowed them to be more effective (468).

External social capital is also crucial to a firm's survival. External social capital basically amounts to the relationships that the firm has with outside parties. These relationships impact the stability of the network of stakeholders (Fischer & Pollock, 2004) and provide resources such as information (Davidsson & Honig, 2003). External ties to others also give actors the opportunity to leverage their contacts' resources (Adler & Kwon, 2002). Fischer and Pollock (2004) additionally demonstrated the concept of external social capital by describing the link that an IPO firm has to its underwriter when it goes public. Their study found that while guiding a firm through the IPO process, the lead underwriter works closely with the top management, firm lawyers and auditors, the Securities and Exchange Commission and the first initial stakeholders. In another study, Coleman (1988) found that some senators were more influential than others because they utilized the norms of reciprocity by building up a set of obligations from other senators, and then using these credits to get legislation passed. Coleman argued that such power benefits allowed the focal actors to get things done, achieve their goals, and look good while doing so. From the examples of internal and external ties mentioned above, it is apparent that both can impact the subsequent performance and survival of the firm.

Lin (2001: 20) outlined four explanations as to why embedded resources in social networks enhance the outcomes of actions. Firstly, the flow of information is facilitated. Social ties located in strategic positions can provide individuals with useful information about opportunities and choices otherwise not available. These ties can also alert an organization and its agents, or even a community, about the interests of an otherwise unknown individual. This information reduces the transaction costs necessary for organizations to recruit better employees, and for individuals to find organizations that can better use their capital. Secondly, social ties can exert influence on agents (i.e. supervisors) who play a crucial role in decisions such as performance. Thirdly, social ties, and their relationship to an individual, may be perceived by those in management as proof of an individual's social credentials. This reassures the organization that the individual can provide resources that are currently beyond the reach of the organization. Finally, social relations reinforce identity and recognition. Being recognized for one's worthiness as an individual or member of a social group not only provides emotional support, but also lays claim to certain resources (Lin, 2001).

Social capital can come at a cost. Nahapiet and Ghoshal (1998) observed that interpersonal relationships could, over time, produce strong norms and mutual identification among network members. Although this in itself if positive, these strong norms can also limit the openness of network members to new relationships, information and views. This view shows that social capital can be restrictive, and may limit an organization in their ability to access new relationships and information, even when it is required.

A second issue of social capital is that it cannot be transferred easily since friendships and obligations do not pass readily from one person to another. In order to survive it also needs maintenance since social bonds have to be periodically renewed and reconfirmed (Adler & Kwon, 2002). The social structure required to sustain social capital can shift as transactions, activities and conditions change and become more or less complex. In addition, relationships that were beneficial to the achievement of goals in the past may thwart goal attainment in the future (Leenders & Gabbay, 1999: 4). For example, Gargiulo and Benassi (1999) found that relational structures that in the past had provided ample social capital for managers later increased the number of coordination failures for which these managers were responsible.

In addition, social capital is difficult to measure. Sociologists Carl Bankston and Min Zhou argued that measurement of social capital is onerous because it is neither an individual-level or group-level phenomenon, but one that emerges across levels of analysis as individuals participate in groups. In addition, the metaphor of "capital" may be misleading because unlike financial capital, which is a resource held by individuals, the benefits of forms of social capital are the results of participation in groups (Bankston & Zhou, 2002). As a way around the measurement issue, many contemporary researchers compile indexes using a range of approximate items such as measures of trust in government, voting trends, memberships in organizations, or hours spent volunteering. Although difficult, the measurement of social capital is not impossible and there are several excellent studies that have identified useful proxies for social capital, using different types and combinations of quantitative and qualitative research methodologies (examples include Knack & Keefer, 1997; Narayan & Pritchett, 1997; Portes, 1995; Portes & Sensenbrenner, 1993; Putnum, 1993). In qualitative studies, utilizing interviews and observation to measure the strength of social capital have been quite successful.

The issue of how new social capital can be created or existing capital can be destroyed is also relevant. It is easy to describe investment or disinvestment opportunities with physical capital, but not as easy to describe investment or divestment opportunities of social capital. Investing in physical capital involves combining tangible inputs such as cement and steel to make a new building. Investing in social capital involves getting closer to others through the combination of intangible acts of service, gifts and mutually beneficial interactions (Robison et al., 2002). Existing financial or physical capital can be transferred to others by gift, inheritance, sale or rental. For example, one may inherit physical capital goods such as factories or houses. Social capital works in the same manner. For example, friends of one individual may become friends of another individual through the efforts of the first person (who is essentially acting as a broker if we use Burt's terminology). However, the transaction does not end after the introduction stage. In order for the social capital to be developed and maintained, the parties to the new friendship must both invest in the relationship too. It is not possible for the broker to maintain the connection; after introducing the two parties, their part in the creation of social capital is complete. The new parties must then attempt to solidify the new relationship through communication, socializing or working together.

The aim of my theoretical model is to clarify the conditions under which social capital can be successfully transferred between individuals and organizations. The research setting I have chosen to empirically study the above concepts is professional service firms (with specific emphasis on management consulting firms). Social capital is very important to professional service firms (PSFs) because relationships are a significant aspect of a professional service firms' success. The output of professional service firms is co-produced through coordinated efforts with client firms implying that actors from both the client and professional service firm must interact for delivery to occur (Mills & Margulies, 1980). Because of these characteristics, markets for professional service firms, more so than markets for manufacturing and other types of firms, depend more heavily on the human and social capital of exchange managers to sustain exchange relationships (Broschak, 2004). In addition, given the increasing number of mergers between professional service firms, the aging demographics of the industry which will result in increasing numbers of founders and partners of professional service firms looking to retire or sell, and the growing tendency for firms to move personnel geographically, the problem of retaining and transferring social capital is amplified. I now assess social capital's influence on professional service firms, as well as the impact that the increased number of mergers and acquisitions in the professional service firm arena has had on the transfer of relationships.

Professional Service Firms

Professional service firms are firms whose primary agents are individuals with prolonged specialized training in a body of abstract knowledge and whose output is intangible and impossible to hold in inventory (Sharma, 1997). Professional service firms (PSFs) describe a wide variety of activities, from law to accounting, to consulting. There appears to be no accepted underlying definition, although Empson (2006) proposed that a professional service firm applies specialist technical knowledge to the creation of customized solutions to clients' problems.

The Role of Professional Service Firms in Contemporary Society

Foremost, professional service firms are becoming increasingly common in today's economy. This is caused in part to the fact that the North American economy has become extremely service-oriented. The professional services sector has grown by more than 10% per annum over the past 25 years and currently generates more than US$ 1,000 billion in revenues globally (Empson, 2006: 2). In fact, professional service firms have become so important to our economy that scholars such as Sharma (1997) speculate that business would come to a "grinding halt" without them. The key assets of professional service firms are embodied in human and social capital, rather than in physical capital.

The value of a professional service firm is derived primarily from the professionals' technical knowledge, expertise, experience and their relationships with clients. All of the above make it difficult to gather quantitative data on professional service firms. Next, numerous mergers and acquisitions are currently taking place amongst professional service firms, with more to follow in the upcoming years. In this particular setting the actions of both the sellers (acquirees) and the buyers (acquirers) are important to the success of the acquisition. In the professional service firm sector, the term 'merger' is used in preference to 'acquisition' in order to de-emphasize any imbalance of power between the combining firms and facilitate integration (Empson, 2000b: 39). In reality, however, most professional service firm mergers are really acquisitions. The new combined firm often ends up looking like a larger representation of one of the former organizations with regards to policies and procedures, structure, and even senior management.

Impact of Social Capital on Professional Service Firms

As clients of professional service firms cannot sample the product prior to purchase, clients must base their purchase decision largely on the reputation of the professional service firm, as well as the relationship they develop with the individual professional during the course of the sales process (Empson, 2000: 209). Investments in relationship-specific skills and knowledge strengthen ties between the client and professional service firm by increasing the efficiency of exchange (Eccles, 1981) and by helping exchange managers anticipate their partners' needs and requests (Sharma, 1997; Uzzi, 1997). Over the course of several engagements, clients may develop close relationships with individual professionals, as the process of customizing the service offering requires professionals and clients to work together (Mills et al., 1983). These personal relationships strengthen market ties because individuals have strong preference for dealing with others that they know and trust (Granovetter, 1985). The longer that professionals are in relationships with clients, the more socially embedded these relationships become and the less likely they are to dissolve. As evidence, Levinthal and Finchman (1988) found an inverted U-shape relationship between the duration of auditor-client relationships and the likelihood of their dissolution (Broschak, 2004). When auditors and clients are first introduced, both parties go through a period of getting to know each other, determining if adequate knowledge and expertise is apparent, and figuring out whether or not a viable working relationship can be maintained. During the early relationship, a client is much more likely to end the relationship and hire new auditors because at that point social capital has not been given a chance to develop. However, once established, personal relationships, in-depth knowledge, and relationship-specific expertise become powerful forces of attachment, and the rate of auditor-client relationships dissolving declined with time.

In any given professional service, there are a variety of roles and responsibilities assigned to various individuals (Bashab & Piot, 2005). There are two main categories of employees in a professional service firm: professional staff and administrative employees. Professional employees are those who are directly responsible for the delivery of the services and the overall management of the firm (i.e. partners, management consultants, business analysts etc.). Administrative employees are those who are charged with supporting roles within the PSF (i.e. administrative staff, receptionists or employees in functional areas such as human resources, finance, marketing or information technology) (Baschab & Piot, 2005). This research focuses solely on the professional category and the various levels of staff that can be found in this category. Some writers of the professions characterize the three main roles played by professionals in professional service firms as "finders, minders and grinders" (Baschab & Piot, 2005: 220). 'Finders' are the professionals expected to focus their attention on building and executing the business of the firm. Some of the roles performed include identifying new clients, identifying needs of existing clients and selling new engagements based on existing or new product offerings. Titles vary from firm to firm, but typical titles of individuals in these roles include partner, director, senior vice president or vice president, managing director or managing partner. 'Minders' are usually mid-level managers and are charged with ensuring the projects are executed smooth. Their titles are typically senior associate, principal, director, manager, or senior manager. 'Grinders' are usually entry-level consultants or analysts with the responsibility of executing the work and performing much of the analysis. Titles for this level of professional are usually analyst, associate, senior associate, consultant or senior consultant. For clarity sake, this thesis only specifies two sets of roles: *partner* and *professional staff*. In the category of '*partner*' I've included my interview participants at the partner, director, senior vice president or vice president level. The category of *'professional staff'* includes interview participants at the senior consultant and consultant level. A more detailed list of individual participants interviewed as part of this study can be found in Table 5 (found on page 108).

In professional service firms, management consultants usually work in project teams and this type of knowledge work often requires close collaboration between individuals (Maister, 1993). Proximity and frequent interaction with colleagues facilitates the transfer of tacit knowledge (Somaya et al., 2008). Weick and Roberts (2003) demonstrated that a "collective mind" develops among colleagues who work in teams that require a seamless integration of their knowledge and skills. Research on social networks offers further support to the idea that internal networks are a central component of the firm-specific capital that can be lost when management consultants leave a firm and move to a new one (Somaya et al., 2008).

The Procurement of Work in the Professional Service Firm Environment

How relationships are developed, contracts are awarded and work is completed is an important aspect of professional service firms, particularly when assessing the impact of social capital. The following section details the nature of the professional service firm world in procuring work, with a particular focus on management consulting firms.

The most common method for professional service firms to market themselves to clients is through the development of relationships using networking and personal contacts. A good network can only be developed over the course of time and requires constant effort to maintain. In the private sector, a strong relationship with a client can lead to direct selection for a project. In the public sector, strong relationships with a client can occasionally lead to direct selection, but more often facilitates pre-selection and short-listing after a request for proposal (RFP) has gone out. The RFP process is discussed later on in this section.

Although generally regarded as one of the least effective ways to sell a service to a potential client, some professional service firms do attempt to solicit business through cold contacts. This is when a professional service firm contacts a potential client by telephone, email, or letter, introduces their firm and attempts to obtain an appointment at a later date where they can further discuss the abilities of the professional service firm, the needs of the potential client, and perhaps sell a service (Biswas & Twitchell, 2002; Kubr, 2002; McKenna, 2006). This method of marketing is used on an exception basis, and most professional service firms rely on winning work through repeat client work and referrals based on their networks.

It is advantageous for consultants to maintain strong networks because in most cases, it is the client who makes the first contact with the professional service firm when they have an upcoming project. The client might contact the management-consulting firm to let them know that they have a RFP being distributed. Alternatively, the client contacts a particular consulting firm and asks for a meeting to discuss the need for independent advice. The client might have worked with the management consulting firm previously, heard of the consultant's professional reputation; had a business acquaintance recommend the consulting firm; or been contacted by the consultant previously (Biswas & Twitchell, 2002; Kubr, 2002; McKenna, 2006).

As mentioned above, some clients utilize a formal selection process called a request for proposal. This is primarily used when public agencies or other organizations publicly announce their intention to carry out a consulting project, and invite consultants to demonstrate their interest and submit proposals. Most large assignments in the public sector are awarded on the basis of competitive bids. Proposals must conform to detailed specifications and failure to follow these specifications leads to disqualification of the bidder (Kubr, 2002). Management consulting firms find out about upcoming RFP's in a variety of ways. Clients may send the RFP directly to consulting firms they have worked with in the past, or post the RFP on various project databases. Management consulting firms sign up to receive notification from these databases when projects that their firm might be interested in are posted.

In most cases, the proposal submitted to the client contains four primary sections: technical aspects; staffing; consultant background; and financial and other terms (Biswas & Twitchell; Kubr, 2002). Each of these sections will be discussed below. The *technical aspects* section describes the consulting firms' preliminary assessment of the problem, the purpose to be pursued, the approach to be taken, and the work problem to be followed.

The *staffing* section is a very important section of the proposal. This section gives the names and profiles of the consultant company's staff responsible for executing the assignment. This includes partners and senior managers (i.e. project managers) who will be responsible for supervising and guiding the team, as well as the members of the team who will be working on site at the client organization. This section also confirms the availability of the staff written into the contract for a certain period of time (usually approximately six to eight weeks). However, if a client delays their response, or decides to postpone the assignment, they know that they will have to accept other consultants of a comparable profile, or renegotiate the assignment (Biswas & Twitchell, 2002; Kubr, 2002).

The *consultant background* section describes the experience and competencies of the management consulting organization as it relates to the needs of the particular client organization. This section usually includes standard information given to all clients detailing the ethical standards and professional practices adhered to by the consulting firm, as well as detailed information outlining similar work completed and providing evidence that that consulting firm is the right partner to choose (Biswas & Twitchell, 2002; Kubr, 2002).

The *financial and other terms* section indicates the cost of services, provisions for cost increases and contingencies, and the payment schedule and other indicators for paying fees and reimbursing expenses (Biswas & Twitchell, 2002; Kubr, 2002).

Once the management consulting firm has been selected, the initial phase in any consulting assignment is the entry phase. During the entry phase, the consultant and the client meet, try to learn as much as possible about each other, discuss and define the reasons for bringing the consultant in, and on this basis agree on the scope of the assignment and the approach to be taken. The results of this first contact and the resulting discussions are then reflected in the final consulting contract (Kubr, 2002: 153). The foundations of successful assignments are laid at this very early stage by establishing mutual trust and empathy, agreeing on the "rules of the game" and starting the assignment with shared optimism, as well as a vision of what can be achieved.

It is important to note the differences between how management consulting firms' complete assignments in comparison to other professional service firms. For example, when an advertising firm wins a contract, the same team that developed the relationship with the client, prepared the proposal, delivered the client presentation and won the work also completes the assignment. This work is usually completed off site by the project team, with regular meetings only as needed with the client, and culminates in a final presentation of the ad campaign to the client. The partner from the advertising firm remains actively involved throughout the project and in many cases is the project lead. Therefore, the relationship that the advertising partner has with the client is key to the success of the project. In management consulting firms, however, most of the project work is completed at the client site by a work team comprised of a project manager and professional staff from the management consulting firm, alongside project team members for the client side. This team works very closely together for the period of the assignment, which often ranges between six weeks to multiple years. The consulting partner that developed the initial relationship with the client and led the successful bid usually transfers the majority of the assignment to the project team. The partner is only involved in the assignment at a high level, coming on site to meet with the client at periodic intervals and perhaps attending the last meeting when the final deliverable is presented. The differences in involvement between the advertising partner and the management consulting partner are crucial when considering relationship development. The advertising partner has social capital with the client, while the consulting partner effectively transfers any social capital developed during the initial engagement process to the onsite project team at the beginning of the assignment. It is the onsite project team that develops the strongest relationships with the client. The strong relationships between the project team and the client most likely have bearing on why my study found that clients were not impacted by partners leaving the firm after the acquisitions took place. I now turn to the impact of mergers and acquisitions on professional service firms.

Impact of Mergers and Acquisitions on Professional Service Firms

In the case of a merger or acquisition, asking professionals to share their proprietary knowledge with their merger partners is like asking them to relinquish their source of power within the firm, at a time when they are likely to be feeling insecure and concerned about their position in the merged firm (Empson, 2000).

Cultural norms and implicit contracts must be developed gradually, over time, to facilitate knowledge sharing within the firm (Morris & Empson, 1998).

In professional service firm mergers, it is important for the acquiring firm to make efforts to retain the professionals in order to retain their clients. If the professional makes the decision to leave the acquiring firm soon after the acquisition takes place; prior research has found that the client will often follow the professional to their new place of employment (Broschak, 2004, Somaya et al., 2008), particularly if the professional is a senior member with numerous years of experience and relationship building expertise. However, it remains to be seen if this finding remains true when there are strong project teams in place that have close day-to-day interactions with the client. My research speculates that even when partners leave a firm after an acquisition, the remaining professional employees will have strong enough relationships with the clients to complete the client work and retain the clients.

My speculation behind client retention even when partners leave is owing to the close collaboration between the members of the team on both the PSF and client sides. Some members of the on-site PSF project team may in fact have more day-to-day interaction with the client than the partner who initially developed the relationship with the client or sold the work. This close interaction may impact whether the client leaves and follows the partner if the partner leaves the PSF after an acquisition takes place.

Mergers and acquisitions amongst professional service firms have become a frequent option in these growth-oriented organizations and provide an opportunity to build up a client base while expanding on services offered and improving staffing levels. PSF mergers can be distinguished from mergers in other industries because of the proprietary nature of knowledge and client relationships, the operational autonomy of professionals and their likely responses to mergers (Empson, 2000; Greenwood et al., 1994). Some studies have examined the consequences of mergers for knowledge transfer (Empson, 2001), while others have sought to assess the relationship between post-merger implementation justice and organizational identity formation (Empson, 2004). Largely neglected by these studies are how professionals choose to transfer client and staff relationships during a moment of disruption (i.e. merger or acquisition) and how successful these relationship transfers are over the longer term. This is what my research study attempted to discover and the details of the study will be elaborated in detail in the next few chapters.

Summary

This chapter has reviewed the current literature on mergers and acquisitions, social capital and professional service firms. I first reviewed the role of mergers and acquisitions in contemporary organizations and then shifted to assessing integration issues of the firm, employees and clients (including the importance of strategic fit, organizational fit, and communication). Second, I assessed the concept of social capital; starting first with its origins and the various ways it has been defined. I then reviewed the role of social capital in contemporary society and drew upon various social capital theories in order to increase understanding of this concept. Additionally, I explored social capital transferability in an attempt to identify factors that contributed to successful social capital transfer. Third, I reviewed professional service firms, focusing on their role in contemporary society, the influence of social capital on professional service firms and the impact that the increased number of mergers and acquisitions in the professional service firm arena has had on the transfer of relationships.

In summary, this thesis has two motivating questions, both centered on the transfer of social capital. First, is it possible to acquire a portfolio of client relationships? Second, how can organizations best manage the transition or transfer of clients and staff from one firm to another? This study seeks to determine the organizational factors professional service firms utilize to transfer social capital during an acquisition. The next chapter outlines the methods used in this dissertation, including a description of the research site, data sources and the analytic approach used.

Chapter 3

Methods

Overview

Chapter 1 introduced the primary focus of this thesis, which is, to determine and assess the procedures professional service firms use to transfer social capital during an acquisition. Chapter Two described the past literature on mergers and acquisitions, social capital and professional service firms. Chapter Three has four objectives. First, it describes the research design and offers validation for my decision to use a qualitative, comparative case-based approach. Several motives for adopting the case study method are described. Second, the chapter provides a brief overview of the empirical setting used as the foundation of this comparative case study. Third, it provides a description of the data collection methods used, including the sources of data. Finally, the chapter describes the method of analysis of the material including issues regarding coding and interpreting the data.

Research Design

This research uses a qualitative, case-based approach comparing multiple cases. It is modeled after Brown and Eisenhardt's (1997) comparative case study on multiple product innovation in the computer industry because of the former study's focus on successful and unsuccessful examples of multiple product innovation. My research study focuses on the transfer of client and staff relationships during a professional service firm merger or acquisition, using a comparison of successful versus less-successful examples of the transfer of social capital.

Using professional service firms, with a particular focus on management consulting services, as an empirical context for understanding how social capital can be transferred from one professional service firm to another during an acquisition generates a number of methodological issues. Foremost, the phenomenon is complex, with a multitude of actors and potential causal influences. As well, the phenomenon is unique, in that this study represents a departure from previous practices of researching the building, leveraging and brokering of social capital. My research seeks to advance theory through the development of a theoretical framework that identifies those factors that contribute to the successful transfer of social capital. In the context of this study, that means examining those factors that increase the retention of clients and staff after an acquisition, as well as those factors that increase the risk of clients and staff exiting the firm. Finally, although previous studies have indirectly looked at social capital transfer (Broschak, 2004; Fund, Pollock & Tsai, in press; Somaya et al., 2008), theoretical insights into the best ways to acquire social capital from others have not yet been extensively researched.

The comparative nature of my study made it necessary to utilize a multiple case study approach and compare an equal number of successful versus unsuccessful cases involving social capital transfer. Multiple case studies consist of a number of cases studied jointly in order to investigate a phenomenon, population, or general condition (Stake, 2005). Multiple cases enable a replication logic in which cases are treated as a series of experiments, each serving to confirm or disconfirm inferences drawn from the others (Yin, 1984). In addition, the results of multiple-case research are typically more generalizable and better grounded than single-case studies (Graebner & Eisenhardt, 2004).

An embedded design (i.e. multiple levels of analysis) is also used. Although complex, it permitted the induction of richer, more reliable models (Yin, 1984). My embedded design consists of two levels of the management hierarchy [i.e. partners and professional staff (i.e. management consultant)] and a combination of employee perspectives (i.e. employees from the acquiring firm, the acquired firm, former employees who had left the firm after the acquisition, and new employees who had joined the firm since the time of acquisition were all interviewed). The impact of company and industry forces is also incorporated into the analysis. An overview of the case study framework used in this study, as well as my reasoning for this type of study is discussed below.

Case Study Framework

As the current study is inductive and begins with limited *a priori* hypotheses, a descriptive framework for organizing the case study is utilized. The descriptive approach helped to identify the appropriate causal links to be analyzed. The framework used in the current study follows Eisenhardt's (1989) process for building theory from case study research. The case framework is outlined below in Table 2. Defining the research activity (Step 1) was discussed previously in

Chapter One. The selection of cases, data collection, and data analysis (Steps 2 to 5) will be discussed as part of this chapter. The shaping of hypotheses and incorporating my findings into the current literature (Steps 6 and 7) will form part of Chapter Four. Finally, my conclusions (Step 8) will be reiterated in Chapter Five.

TABLE 2: CASE STUDY FRAMEWORK

Step	Activity	Reason
1. Getting started	Definition of a research activity	Focuses efforts
2. Selecting cases	Neither theory nor hypotheses Specified population Theoretical, not random, sampling	Retains theoretical flexibility Constrains extraneous variation and sharpens external validity Focuses efforts on theoretically useful cases – i.e. those that replicate or extend theory by filling in conceptual categories
3. Crafting instruments & protocols	Multiple data collection methods	Strengthens grounding of theory by triangulation of evidence Synergistic view of evidence Fosters divergent perspectives and strengthens grounding
4. Entering the field	Overlap data collection and analysis, including field notes Flexible and opportunistic data collection methods	Speeds analyses and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features
5. Analyzing data	Within-case analysis Cross-case pattern search using divergent techniques	Gains familiarity with data and preliminary theory generation Forces investigators to look beyond initial impressions and see evidence thru multiple lenses
6. Shaping hypotheses	Iterative tabulation of evidence for each construct Replication, not sampling, logic across cases Search evidence of "why" behind relationships	Sharpens construct definition, validity, and measurability Confirms, extends, and sharpens theory Builds internal validity
7. Enfolding literature	Comparison with conflicting literature Comparison with similar literature	Builds internal validity, raises theoretical level, and sharpens construct definitions
8. Reaching closure	Theoretical saturation when possible	Sharpens generalizability, improves construct definition, and raises theoretical level Ends process when marginal improvements become small

Source: Eisenhardt, K.M. 1989. Building theories from case study research. *Academy of Management Review,* 14 (4): 532-550

Why a case study? As a research study, case studies focus on understanding the dynamics present within single settings (Eisenhardt, 1989: 534). They are a common way to do qualitative inquiry (Stake, 2005) and can involve single or multiple cases, and numerous levels of analysis (Yin, 1984). Case studies typically combine data collection methods such as interviews, questionnaires, secondary sources and observations. The evidence may be qualitative, quantitative or both (Eisenhardt, 1989). Yin (1989) suggested that case studies are appropriate in answering "why" questions about contemporary events over which the investigator has little or no control. He also suggested that case studies are fitting for generating theoretical propositions.

Qualitative case studies are appropriate for multilevel studies of professional service firm acquisition because of the complexity of the subject and the focus on linkages between levels of analysis (Greenwood & Hinings, 1996). Since multilevel theories and approaches are still in the developmental stage (Hitt et al., 2007; Kozlowski & Klein, 2000), case studies offer the potential for theoretical elaboration – "the process of refining a theory, model, or concept in order to specify more carefully the circumstances in which it does or does not offer potential for explanation" (Vaughan, 1992: 175) (see also, Eisenhardt, 1989; Siggelkow, 2007).

In particular, comparative case studies build theories that are "prudent, robust, generalizable, and testable" (Eisenhardt & Graebner, 2007: 27). Multilevel, qualitative case studies provide new insights for theories of organizations (e.g.

Chreim, Williams & Hinings, 2007; Greenwood & Suddaby, 2006) and develop our understanding of the sources and consequences of the differences between organizations.

Case study analysis is significantly different from statistical analysis. Unlike statistical analysis, there are few fixed formulas to guide the novice investigator[5]. Instead, much relies on an investigator's own style of rigorous thinking, along with the sufficient presentation of evidence and careful consideration of alternative interpretations. The ultimate goal of any analytic strategy is to treat the evidence fairly, to produce compelling analytic conclusions, and to rule out alternative interpretations (Yin, 1994: 103).

Nature of Case Studies: There is considerable confusion in the methodological literature about the precise nature of a case study. Currently, there are at least three different views of case studies. Advocates of the first view (i.e. Stake, 1994; 2000) suggest that a case study is not a methodological choice but rather it is a choice of an *object* to be studied. Whatever the methods employed in the study, the researcher chooses to study the case. That is, once a researcher decides to analyze any bounded social system such as an organization, a subculture, or a family, s/he is conducting a case study. Advocates of this view also support a distinctly constructivist epistemology and state that case research is fundamentally reflective and interpretive (Schon, 1985).

[5] Miles & Huberman (1984), was one of the first texts to try to give qualitative researchers specific guidelines for analyzing cases. Since then Kathy Eisenhardt (1989) has done substantial work on theory building from case studies.

Supporters of the second view, led by Yin (1984), argue that a case study is both the object of analysis and a distinct *method* of conducting social research. In this context, case research is an essentially positivist analysis and seeks to measure causal relationships between social processes and outcomes through the application of explicitly developed instruments, protocols and related research instruments (Eisenhardt, 1989).

In the third view, (e.g. Stoecker, 1991) case studies are seen as a *framework* within which social research is to be conducted. In this context, case studies are represented as a framework of time, structure and geography within which data collection can occur. Within such boundaries, social researchers may adopt a wide variety of specific methods to obtain required information. According to this view, a case study is less a method than a design structure that houses other methods.

In spite of their differences, these three approaches share three similarities that support the use of the case study method in the research context of this thesis: uniqueness, research questions and importance of context. These three similarities are elaborated below:

Uniqueness: Stake's (1994) suggestion that choosing to perform a case study is more a choice of object to be studied than it is a methodology is caused in part from the idea that case studies are often dictated by the empirical phenomena to be studied. When a researcher makes the decision to study a rare and unusual event, that choice often rejects the use of other research methodologies, including surveys or experiments, where the intent is to isolate common characteristics of the phenomena and make comparative analyses. In addition, a researcher cannot isolate common characteristics of a phenomenon that has not happened before, and is unlikely to be recreated in exactly the same way in a different time and place. The uniqueness and rarity of an event, therefore, dictates the choice of a case study as the appropriate methodology.

The idea of mergers and acquisitions between professional service firms is not unusual. Many professional service firms have merged in recent years in order to build up their market presence and compete for the lucrative business of corporations that were also becoming bigger and increasingly global. However, the idea of how best to manage the transition of clients and staff from one professional service firm to another during an acquisition is unique in that it hasn't yet been extensively studied. In addition, the key factors for success and the reasons mergers often fail remain poorly understood. While theoretical frameworks for explaining the success and failure of M&A have traditionally focused on financial and strategic factors (e.g. Haspeslagh & Jemison, 1991; Haspeslagh & Jemison, 1991b; Hitt et al., 1991; King et al., 2004; Nahavandi & Malekzadeh, 1993; Vermeulen & Barkema, 2001), research into the organizational and human resources implications of M&A has increased in prominence in recent years (Buono & Bowditch, 1989; Cartwright & Cooper, 1993; Nahavandi & Malekzadeh, 1993; Schweiger & DeNisi, 1991).

Research Questions: The research questions framing this dissertation justify using a case study. The primary interest of this study is to examine how social capital can be transferred from one professional service firm to another when a firm is bought or acquired. This interest favours the use of a qualitative case study over survey strategies or the analysis of archival records because it is more explanatory and deals with operational links that need to be traced over time (Yin, 1994: 6). Case studies allow the detailed study of data that creates and illustrates a concept using professional accounts and experiences. This detailed information on experiences would not come to light with the use of an experiment because in experiments the issues are separated from the context.

Importance of Context: Case studies are acknowledged to be the preferred method of social inquiry in understanding complex social situations because the case to be studied is a complex entity located in a situation embedded in a number of backgrounds (Eisenhardt, 1989; Guba & Lincoln, 1994; Stake, 2005). Historical context is almost always of interest, but culture, physical, social, economic, political, ethical and aesthetic contexts are also of interest (Stake, 2005). Unlike an experiment, which is designed to separate a phenomenon from its context so that it can be manipulated with precision, case studies are designed to investigate social phenomena within a real-life context. The attention paid to the complexity of social action is based on a view that cases are complicated and actions may be attributed to a wide variety of causal factors and motivations (Stake, 1994). Social action is, in some instances, assumed to be 'messy' and case studies, which are based on the assumption that there are multiple causes to social situations, are best equipped to accommodate ‘messy’ situations (Stake, 2005).

In addition, Miles and Huberman (1994) recommend that researchers use qualitative research designs when there is a clear need for deep understanding, local contextualization, causal inference, and exposing the points of view of the people under study. The arguments in Chapters One and Two clearly demonstrate that these needs apply in the case of studying mergers and acquisitions between professional service firms. In earlier research, Larsson (1990) maintained that case studies are particularly appropriate for the study of M&A integration, given the need for detailed, contextual descriptions of very sensitive data. The use of case studies in the context of M&As is also in line with the recommendation of Napier (1989) who advocates using a more systematic approach, such as case studies, to examine whether the pattern of merger types varies across or within certain industries. Thus, the appropriate research methodology for a study that attempts to extend existing theory relating to merger and acquisitions, social capital and professional service firm literature is the comparative case study research methodology (Eisenhardt, 1989; Glaser & Strauss, 1967; Stake, 1995; Yin, 1984).

The Company: Canada Consulting Company

The company used as the foundation for this case study and the four cases examined within have all been disguised to protect their anonymity. For the purposes of this research study, the professional service firm will be referred to as

Canada Consulting Company (CCC). CCC was founded approximately thirty years ago and has evolved into a leading information technology (IT) and business process services (BPO) firm. It has services spanning IT systems integration and consulting, which provide the firm with 48% of its revenue and IT/BPO, which provide the firm with 52% of revenue. The firm operates globally, but its primary interests are in Canada, the United States and Europe. The company has 18 locations across Canada and its 2008 consulting revenue was $3.8 billion. Currently the company employs over 26,000 professionals and has 107 offices in 16 countries. The company primarily serves the financial services (35% of revenue), public sector/healthcare (32%), telecommunications and utilities (20%), and retail and leisure (6%) industries.

CCC operates under a client-proximity model, which means that it organizes its operations around particular metro markets. Each city office is a separate business unit and within each business unit there are vertical silos based on industry. Within each group there are also practice units that serve all of the silos. For example, the management consulting practice serves all of the industries.

Canada Consulting Company has a “build and buy” growth strategy. The firm “builds” by organic growth focusing on systems integration contracts and projects, as well as outsourcing contracts. The firm “buys” by growing through niche market and transformation acquisitions that are based upon strategic fit, synergies and a positive financial contribution. The firm underwent its first merger in 1986 when it merged with a leading Canadian data processing facilities management company. This merger allowed the firm to increase its expertise in the data processing area. Starting in 1988, the firm began placing a strong focus on growing by acquisition and acquiring new firms at least every one to two years.

The Four Cases: Middleton, Quantum, Edgewood, Fanfare

My research compared four independent offices of CCC that underwent acquisitions that were announced in 2004. The dataset consisted of three Canadian offices (two located in Eastern Canada and one located in Western Canada) and one American office (located in the Eastern United States). The offices will be referred to as: Middleton, Quantum, Edgewood and Fanfare.

CCC and the four cases within it were selected as my research site for four primary reasons. First, the firm's focus on growing by acquisition meant that there were successful and less successful acquisitions to compare. Second, the timing of the acquisition announcement was of utmost importance. All of the acquisition announcements were made in 2004 and the acquisitions were completed during the timeframe of mid 2004 to early 2005. Third, the receptiveness of the firm to participating in my study was a welcome bonus as I struggled somewhat to find a research site. A couple of initial leads ended up deciding that they were not comfortable allowing a researcher to investigate their success with social capital transfer after an acquisition. Therefore it was a pleasant surprise to find a firm that was receptive to participating, as CCC felt the potential findings could be relevant to their future acquisition success. Fourth, in keeping with my plan to compare and contrast successful and unsuccessful acquisition stories, CCC provided these four firms to me as examples of firms that met this qualification. Each selected office was asked if they were interested and willing to participate in the interview process and all four agreed. A more thorough description of each case studied follows below.

The first two cases (Middleton and Quantum) came from the same parent company (Alliance Consulting Solutions[6]), but were separate offices in two different cities (Montreal, Quebec and Quebec City, Quebec). CCC acquired 49% of Alliance Consulting Solutions (ACS) in 2000. The agreement in place allowed CCC the option of acquiring the remaining 51% in 5 years. Alliance Consulting Solutions was a privately held company, and the sale was an excellent way for the head partners to monetize the value of the company since the purchase price of the remaining 51% was based on revenues, not profitability. There was a minimum profitability requirement of 6% net; however, the remaining purchase price was based on incremental revenues. So between the first acquisition of 49% and the second acquisition of 51%, ACS sought to increase their revenues substantially. To do this, ACS bought up a number of small firms that had good reputations and profitability. This undertaking allowed ACS to increase their size (in number of people as well as revenues). As it turned out, CCC decided to complete the purchase deal with ACS in 2004 rather than the planned 2005. This change in plans was because the marketplace was rife with rumours of the anticipated purchase deal and there was some fear on behalf of CCC that the

[6] This name has also been disguised.

uncertainty of the upcoming purchase in 2005 would cause staff and clients of both ACS and CCC to move to other firms. Therefore, in the Middleton office the acquisition was announced in November of 2004 and was completed by December of 2004. In the Quantum office the acquisition was also announced in November of 2004, but the acquisition did not take place until February 2005. The Middleton office had 125 employees at the time of the acquisition. The Quantum office had 100 employees. The Middleton office had 233 clients, primarily in the private sector, at the time of the acquisition. One year after the acquisition the number of clients had decreased to 210 and this number remained more or less constant three years after the acquisition. Middleton clients include a large number of companies in the financial sector. Many of these clients are located in the Montreal area but an increasing number are located abroad. The Quantum office had 100 clients, primarily in the public sector, at the time of the acquisition. One year after the acquisition, the number of clients was 95. This number remained constant three years after the acquisition. A breakdown by industry includes 56 government clients, 9 health sector clients, 7 in finance and insurance, and 23 in private industry.

The third case involved the acquisition by Canada Consulting Corporation of Edgewood, a Western Canadian based management consulting firm located in Edmonton, Alberta. Edgewood was a small, niche market firm of approximately 30 employees. They had been very recently acquired by Alliance Consulting Solutions as part of ACS's effort to increase their revenues prior to the increased ownership by CCC. The acquisition of Edgewood by ACS was announced in

February 2004. In essence, the firm operated exactly the same as they did prior to the first acquisition, other than a name change. In November 2004 the acquisition of Edgewood by CCC was announced. The acquisition was completed in early 2005. The Edgewood office had approximately 28 projects spread over 15 clients at the time of the acquisition, primarily in the public sector**.** These client numbers have remained constant since the acquisition.

The fourth case involved the acquisition by Canada Consulting Corporation of the U.S.-based firm Fanfare (located in Fairfax, Virginia just out of Washington, DC). This acquisition was announced in February 2004 and took place in May 2004. Fanfare employed approximately 425 employees, specialized in IT consulting and served clients in the government, financial services and communications industry around the globe. This acquisition allowed Canadian Consulting Company to double its presence in the United States and triple its presence in Europe.

Fanfare dealt primarily in the U.S. Federal Government market because of its proximity to Washington, D.C. At the time of the acquisition, the Fanfare office had approximately 150 clients at the time of the acquisition and this number has remained more or less intact other than the 50 clients transferred to another company due to the highly secretive nature of the work (e.g. U.S. Department of Defense work). Because of the sensitive nature of this particular federal work, there was a need for this office to be American owned. As a result, this office operated under a separate name and as a completely separate business unit (from CCC as well as the other United States office). Although Fanfare had the benefits of the parent company and participated at the corporate level in some activities from a human resources and management perspective, their projects, financials, and timesheets all operate under a separate system from Canada Consulting Corporation. These measures were taken to ensure that Fanfare was able to retain their federal clients as initially there was a great deal of push back from clients about a foreign owned (i.e. Canadian) company having access to secret documents.

Of the four cases studied, the two acquisitions that were considered to be successful by CCC criteria were Edgewood and Fanfare. The two firms that were considered to be unsuccessful by CCC criteria were Quantum and Middleton. The basis for the Edgewood and Fanfare acquisitions being deemed a success was based on the perceived integration of the acquired firms into CCC. The integration was considered to have gone smoothly by CCC standards and the units were now established departments/offices within CCC. It was recognized that there had been some client and professional/management attrition but this was not considered to be significant. The basis for the Quantum and Middleton acquisitions being deemed unsuccessful was based on the lack of integration of the acquired firms into CCC and the perceived high amounts of professional/management attrition. Table 3 illustrates the initial 2x2 matrix showing the two firms considered by CCC to be examples of successful social capital transfer (Edgewood, Fanfare) and the two firms considered by CCC to be less successful examples (Middleton, Quantum). In my findings chapter I confirm that there were two successful and two unsuccessful firms. However, the actual successful and unsuccessful firms deviate from the original 2x2 matrix due to my focus on client retention in addition to professional/management retention. The deviation to the 2x2 will be discussed in Chapter 4 (and is found on page 133).

TABLE 3: INITIAL 2X2 OF FIRMS REGARDING SUCCESSFUL AND UNSUCCESSFUL SOCIAL CAPITAL TRANSFER (AS PROVIDED BY CCC)

Social Capital Transfer		
Successful	Edgewood	Fanfare
Unsuccessful	Middleton	Quantum

Data Sources

The study was carried out using five primary categories of data. These consisted of an initial pilot study, interviews with key players, direct observation, documentary sources, and the use of extensive fact checking. Each of these is elaborated in turn.

Pilot Study: A pilot study was completed in 2006 as a preliminary start to this dissertation research. For the pilot study I conducted semi-structured interviews with seven professionals who had recently sold their firms or were considering doing so over the next couple of years. My primary interest in speaking to these professionals was to attempt to determine their ability to transfer social capital when they decided to retire or sell their firms. By interviewing professionals who had sold their firms, I hoped to determine the circumstances that allowed social capital to be transferred and sold and whether and how a monetary value could be placed on both the formal and informal contacts that made up a professional/founder's network of relationships.

The seven firms ranged in size from one employee to one hundred employees and were at differing places in the organizational life cycle, with a range in age from two to twenty plus years. The number of clients/accounts for each firm ranged from four to approximately eight hundred. Although a variety of professions were selected for the pilot study, there were striking similarities in the stories that came out of the interviews. As this was a pilot study, the interviews were analyzed from the standpoint of determining key themes and interesting observations, using my preliminary research questions.

The general consensus was that a high level of social capital, built on a favourable reputation, relevant experience and direct personal contact, often assisted entrepreneurs in gaining access to venture capitalists, key competitive information sources, potential customers and others (i.e. Florin et al., 2003). All of the pilot study interviewees reported their networks of relationships as instrumental to their businesses. In addition, all interviewees worked hard to maintain contact with their networks in order to maintain their relationships. For example, going for lunch on a regular basis with clients, or making house calls when necessary were mentioned. Customer appreciation days were also popular in the agricultural sectors. A few interviewees mentioned that websites and newsletters, although used to some extent, were not of the same value as personal communication.

External connections are vital to the success of PSFs, therefore relationships with clients and other external constituents are constantly reviewed. PSFs derive much of their revenues from long term or repeat clients and the growth of the firm depends on the ability of professionals to generate new business (Sullivan, 2001). Six of the seven interviewees stated that client work came primarily from repeat business, as well as from referrals. For most of the professionals, continued business was a mainstay of the firm and the organizations catered to their long term clients in the hopes that they would keep coming back for services or that they could sell or cross sell them additional services.

Of the five firms who had sold, only two considered the transfer of clients and network to be successful. Those that considered the transfer successful felt that this was caused in part by the continued involvement of both firms during the transition. It was felt by the participants that the unsuccessful transitions were from the non-interest of the new owners in getting to know the existing clients.

The pilot study allowed me to refine my data collection plans with respect to both the content of the data and the procedures to be followed (Yin, 1994). The primary focus of the pilot study was to determine a professional's ability to harvest social capital when retiring or selling a firm. After the completion of the pilot study my focus changed from social capital harvest to social capital transfer. I still maintain interest in what happens to PSFs when their founders decide to sell and desire to harvest the value of their relationships in order to accumulate funds for their next entrepreneurial venture or retirement. But at this point in time I am more interested in examining how both professionals/ management and clients can be successfully transferred to an acquiring firm after an acquisition, as well as why in some cases there appeared to be more focus placed on keeping professionals/management than clients.

The pilot study also allowed me to adapt the research design and field procedures ultimately utilized during my dissertation research. From a research design perspective, I realized after the pilot study that completing a multiple case study of similar firms using successful versus unsuccessful cases would be more compelling than comparing firms in different industries as I did in my pilot study. Additionally, my interview questions were refined and streamlined. The basic questions remained the same, but the order of the questions and the potential follow up questions became more detailed as I developed expertise in the subject matter and fine tuned my interviewing techniques. From a field procedures perspective, the pilot study highlighted the importance of transcribing interviews as soon as possible after completing the interview in order to ensure that I captured the tone of the interviews and interpreted what the participants were saying correctly. In addition, I realized the importance of using field notes and writing up my informal observations and impressions after each interview and site visit.

Interviews: The primary data collection method of my research study was in-depth semi-structured interviews using an interview guide. The interview guide strategy was one way to provide more structure to the interview process while maintaining a relatively high degree of flexibility (Patton, as cited in Rubin & Babbie, 2001: 407). More structure simplifies the interviewer's subsequent task of organizing and analyzing the data (Bowen, 2005).

A series of semi-structured interviews[7] was conducted with significant or "expert" informants (Flick, 1989) involved in, or affected by, the acquisition. At each site I interviewed two types of respondents. The first group was composed of management-level respondents (VPs, partners or directors) who were involved in the management of the unit and/or the professional service firm, were responsible for selling work to clients and, in some cases, were also involved in the supervision of the lower level professional-level staff. These management-level respondents did complete client project work, but not to the same extent as the second group of respondents. The second group of respondents consisted of professional-level staff (management consultants) that worked directly with clients on project work.

My initial contact into CCC was a Director of Management Consulting at the Edgewood Office with whom I had worked at PricewaterhouseCoopers between 1997 and 2000. This contact selected the offices that I approached to be part of

[7] The interview questions were developed as a result of the pilot study discussed above. The interview questions used in the study can be found in Schedule A on page 235.

my study. He also put me in contact with the Director of Management Consulting at the other three offices. I then contacted these three individuals with the details of my study and asked if they might be interested in participating. After agreeing to participate, each office contact then identified a potential list of participants from their office who had been involved in the acquisition process, as well as potential participants who had worked for both the acquired firm and acquiring firm pre-acquisition. I also spoke to respondents at each office who joined the combined firm after the acquisition took place, in order to get their perspective of how social capital transfer had taken place. In addition, at one site (Middleton) I was able to gain access to a partner who left the firm after the acquisition and started up a competing consulting firm. After obtaining the potential participant list, individuals were contacted by email and asked if they were willing to participate. Interviews were scheduled with those who responded in the affirmative. It should be noted that for this study I was unable to speak to clients as part of my interviews so client perceptions with regards to the success of the acquisition are based on the interviews conducted with the professional staff and partners. To validate my findings with regards to client retention, I compared the client retention data collected from each firm.

All of the participants involved in the interview process discussed the integration of the two firms involved in the acquisition. Interviewees were asked to recount their experiences of the integration process in the semi-structured thematic interviews. The interviews were also used to elicit an understanding of the context of events surrounding the acquisition process. Finally, the interviews served the important function of leading me to new archival or documentary materials or in some cases to new informants (i.e. a past partner of one of the offices that had since left the firm) or to access material or information (i.e. such as retention rates) that was not represented in other material. In all four cases, I interviewed between 5 and 10 respondents and in each case found that similar stories and themes emerged.

The specific questions asked and the themes discussed were similar from interview to interview although they varied somewhat depending on the interview participant. Although an interview guide was used (attached as Schedule A on page 235), because of the exploratory nature of the research every effort was made to allow each informant to "tell their story" without the interjection of my preconceived notions of what content ought to be emphasized. At the beginning of each interview, the interviewee was provided with an ethics consent form (sample attached as Schedule B) and advised as to the nature of the research. The interview guide had five important themes. The first theme began with a background of the respondent and their history with the firm. The second theme focused on the retention efforts of *professionals* by the acquiring firm after the announcement of the acquisition had taken place. The third theme concentrated on the retention efforts of *clients* by the acquiring firm after the acquisition announcement had taken place. I asked the participants about their personal experience with developing and retaining client relationships, as well as their efforts to transfer relationships during the acquisition process in the remaining two sections. The questions were adapted depending on whether the participant was someone who came from the firm that was acquired, came from the firm that did the acquiring, joined the firm after the acquisition had taken place or had left the firm since the acquisition had taken place. In all cases, the respondents were asked open-ended questions that allowed them to relate their interpretations of how the transfer of social capital had evolved.

In total, twenty-nine interviews were conducted during multiple site visits to each of the four professional service firm offices. The offices were located in Edmonton, Alberta; Montreal, Quebec; Quebec City, Quebec, and Fairfax, Virginia. Table 4 and 5 outline the breakdown of the interviews that were completed in each office. Over a five month period between January and May 2008, I travelled to each office location. Interviews varied somewhat in length, but, in general, ranged between forty-five minutes and sixty minutes. The interviews were recorded and transcribed to ensure reliability. The transcriptions totaled 1,049 double-spaced pages. Twenty-six of the participants were interviewed face to face in their workplace and two interviews were conducted face to face in a restaurant. Because of a scheduling conflict, one interview was conducted over the telephone.

TABLE 4: BREAKDOWN OF INTERVIEWS

Firm	***Total Interviews conducted***	***Management-level interviews***	***Professional-level interviews***	***Interviews done in person***
Edgewood	10	5	5	10
Middleton	5	3	2	5
Quantum	7	4	3	7
Fanfare	7	4	3	6*
Totals	29	16	13	28

* One interview was conducted by telephone due to a scheduling conflict when I was on site.

TABLE 5: INTERVIEW PARTICIPANTS

Participant #	Title of Participant (Sr. Mgmt/Partner or Consultant/Senior Consultant)	Office	Side of Acquisition
1	Consultant	Edgewood	Acquired (ACS)
2	Senior VP (Sr. Mgmt)	Edgewood	Acquiring (CCC)
3	Consultant	Edgewood	Post
4	Director of Consulting (Sr. Mgmt)	Edgewood	Acquiring (CCC)
5	Consultant	Edgewood	Acquired (ACS)
6	Director (Sr. Mgmt)	Edgewood	Acquired (ACS)
7	Director (Sr. Mgmt)	Edgewood	Acquiring (CCC)
8	Consultant	Edgewood	Acquired (ACS)
9	Director (Sr. Mgmt)	Edgewood	Acquired (ACS)
10	Consultant	Edgewood	Acquired (ACS)
11	VP, Consulting (Sr. Mgmt)	Fanfare	Post
12	Director (Sr. Mgmt)	Fanfare	Acquiring (CCC)
13	Senior Consultant	Fanfare	Acquired (ACS)
14	Senior Consultant	Fanfare	Acquired (ACS)
15	Senior Consultant	Fanfare	Acquired (ACS)
16	Director (Sr. Mgmt)	Fanfare	Acquired (ACS)
17	Director of Consulting (Sr. Mgmt)	Fanfare	Post
18	VP of Consulting (Sr. Mgmt)	Quantum	Acquired (ACS)
19	Senior VP of CCC (Sr. Mgmt)	Quantum	Acquiring (CCC)
20	Director (Sr. Mgmt)	Quantum	Acquired (ACS)
21	Senior Consultant	Quantum	Acquired (ACS)
22	Senior Consultant	Quantum	Acquired (ACS)
23	Director (Sr. Mgmt)	Quantum	Acquired (ACS)
24	Senior Consultant	Quantum	Acquiring (CCC)
25	Director of Consulting (Sr. Mgmt)	Middleton	Acquired (ACS)
26	Senior Consultant	Middleton	Acquired (ACS)
27	Senior Consultant	Middleton	Acquired (ACS)
28	Partner (who left firm) (Sr. Mgmt)	Middleton	Acquired (ACS)
29	Senior VP of CCC (Sr. Mgmt)	Middleton	Acquired (ACS)

Direct Observation: Additional data collection methods consisted of a daily record of impressions and informal observations that were completed after each interview (A sample of my direct observations is attached as Schedule C and is found on page 239). The informal observations comprised my thoughts about the mood of the individual being interviewed, any casual comments that were made outside of the recorded interview, as well as the office setting, the feel of the office and how the researcher was treated during the completion of the interviews. These observations provided real-time data and were a useful source of additional information during the data analysis period. Where applicable, these observations have been incorporated into my data analysis alongside my interview data.

Documentary Sources: Archival research consisted of a review of both electronic (i.e. internet-based company annual reports, websites) and hard copy issues of internal publications and industry statistics. I also obtained client and professional staff retention statistics at the four case study locations. Although my interviews, pilot study and direct observations formed the majority of my data sources, these documentary sources provided a rich source of additional information with which to supplement my understanding of CCC and assisted in the interpretation of the interview and observation data.

There were a number of sources of documentary data. Initially, I accessed the company website to obtain information regarding the history of CCC and details regarding their acquisitions. I also reviewed company annual reports for the years 2004 to 2009. The five-year time span chosen was because the acquisitions I studied were all announced in 2004 but I did not complete my interviews with participants until 2008. Although the integration of the acquisitions in question were all completed by 2005, there were still some ongoing ramifications to the integration process at the time of my interviews (i.e. the ACS office space in Edmonton took some time to sell) and I was interested to see if these ramifications had any impact on the company's annual performance. For the most part these outcomes involved human resource issues and did not impact CCC's financial performance to any extent.

I also had access to staff retention statistics at all four of the sites. Two of the offices provided a staff retention report that provided details on those staff that left the firm after the acquisition. I verified the numbers one, two and three years after the acquisition was announced. At the other two sites although I did not have visual access to the information, the Director of Management Consulting verbally provided the figures to me and in both cases their numbers were very similar to the two firms where formal documentation was received. None of the four participating offices had a formal report detailing client loss or retention. However, in all four cases the Director of Management Consulting verbally provided the percentages of clients retained one and three years after the acquisition. I verified these numbers when I interviewed the CCC Vice President at each office and in each case these numbers were consistent. In addition, I followed up after my interviews to obtain actual client numbers instead of relying only on percentages of clients retained and these figures also matched up with the earlier figures provided[8].

Lastly, I consulted CMC Canada's *Management Consulting in Canada: 2007-2010,* which was prepared for CMC-Canada by the marketing research firm, Kennedy Information, Inc. This material provided an overview of the Canadian Management Consulting Market, market size and growth between 2004 and 2010, trends shaping demand for consulting services, and a brief history of the numbers of mergers and acquisitions that had taken place during the same timeframe.

Collectively, the documents produced by this source of documentary data comprised approximately 300 pages of annual reports, retention documents and the management consulting documents.

Fact Checking: Fact checking involved clarifying questions that emerged during both transcription and analysis through follow-up contact with the interviewees via telephone or email to check the accuracy of facts and observations. An example of follow-up was verifying the actual client numbers retained by each office versus the retention percentages provided. Fact checking helped "maintain reflexivity by encouraging self awareness and self correction" (Bowen, 2005: 216). Throughout the data collection process, steps were taken to minimize informant biases. The respondents were made up of multiple individuals from

[8] I was not able to obtain exact numbers and breakdown of clients by industry for the Fanfare office due to confidentiality concerns.

each respective firm (i.e. both the acquiring and the acquired firm were represented). Table 5 above specified the contrast in levels of the various interview participants, as well as whether they came from the acquired firm, the acquiring firm, or post acquisition. Incorporating participants that were at different levels of seniority and from different parts of the firm drew upon the fact that depending on their own particular circumstances; individuals have different interests and perspectives on an acquisition process (Graebner & Eisenhardt, 2004). To further motivate individuals to provide accurate data, confidentiality was promised. Participant identities were protected during all documentation of data, no personal identifiable data was used and all feedback was referred to using a pseudonym. In addition, interview data was kept in a password protected folder on my laptop and back up files were also password protected. Upon completion of the study, the interviews and digital audio files will be destroyed after 10 years.

Data Analysis

Because of the broad scope of the research question and the overall objective of inducting theory from case study data, the analytical analysis of the data was inherently iterative and required considerable movement between the data sources, the conceptual framework and the theoretical literature (Miles & Huberman, 1984). The description that follows therefore suggests a degree of sequential deliberation resulting from the reconstruction of the analysis process. Data collection and interpretation overlapped and were punctuated by movements between the stages of data collection and analysis (Miles & Huberman, 1984).

To analyze the data, I first entered all transcribed responses into an excel spreadsheet indexed by case and question number. Next, using the interviews and documentary sources, a case study was written for each of the four sites. An example of one of the case studies is attached as Schedule D and is found on page 246. The writing of the case studies was an iterative process that took approximately two months to complete. I revisited the data frequently as important features of client and professional/management transfer and retention emerged on an ongoing basis. During the individual case write-ups I noted similarities and differences among cases, however I refrained from further analysis until I had completed all case write-ups in order to maintain independence of the replication logic.

The case histories were used for two analyses: within case and cross case. The within case analysis focused on developing constructs and relationships to describe the process experienced by each office that I investigated. A core aspect of the inductive process was that I allowed constructs to emerge from the data during this process. Although I was not guided by specific *a priori* hypotheses at the start of this analysis, it must be noted that I was not a "blank slate" before the research began. My personal experience working as a management consultant prior to returning to university to pursue doctoral studies certainly influenced my thinking regarding social capital as I had personal experience developing, maintaining and transferring client relationships. I also experienced the merger between Price Waterhouse and Coopers and Lybrand, which took place in 1998. And, as discussed earlier, I completed a pilot study in 2006 to gather initial information on social capital. Thus, I did have a sense at the outset of this study that maintaining social capital and networks of relationships would be important aspects of each case. It was also expected that each case would place significant focus on long term contracts or repeat work, and that successful cases would have done a better job of contacting clients after the announcement of the acquisition.

As an aside, it should be noted that Eisenhardt (1989: 536) felt that *a priori* knowledge was valuable in qualitative research because it facilitated the design of theory-building research and "permit[ted] researchers to measure constructs more accurately. If these constructs prove[d] important as the study progress[ed], then researchers ha[d] firmer empirical grounding for the emergent theory". Therefore, my *a priori* knowledge was helpful as I moved through the course of this study.

Once the individual case studies were complete, a cross-case analysis was utilized relying on methods suggested by Miles and Huberman (1984) and Eisenhardt (1989) to develop the conceptual insights. Initially, the four cases were compared in order to look for similar constructs and relationships across the multiple cases. A spreadsheet was created to facilitate further comparison and to allow the researcher to compare successive pairs of cases for similarities and differences and develop the emerging constructs and theoretical logic. The data analysis process was iterative and lasted 10 months. The original interviews were consistently referred to in order to ensure that my ideas continued to be consistent with the data.

In the first stage of coding, I initially used ATLAS.iti software along with an open coding framework to code the text of the interviews and case studies. The initial coding was descriptive and broad and followed Miles and Huberman's (1984: 58) recommended method of "creating a provisional 'start list' of codes prior to fieldwork". The provisional list came from my list of research questions as well as my conceptual interest in social capital development and transfer and client and staff retention. Table 6 outlines the codes used in the initial analysis.

TABLE 6: INITIAL CODING LIST

	Codes
1	Reasons for purchase
2	Job security
3	Reaction to acquisition announcement
4	Autonomy
5	Service contract versus consulting contract
6	Contractual agreement
7	Relationships
8	Robustness
9	Strategic fit
10	Organizational systems
11	Organizational fit
12	Success of acquisition
13	Lessons learned
14	Client retention
15	Professional staff retention
16	Partner retention
17	Integration
18	How clients found out
19	How clients were transferred
20	How staff found out
21	How staff were transferred
22	Separate entity
23	Management styles
24	People oriented
25	Trusted advisor
26	Social capital/relationships
27	Social capital development
28	Social capital maintenance
29	Social capital transfer
30	Culture
31	Culture clash
32	Adequate communication
33	Timely communication

As the analysis progressed, I progressed away from using ATLAS.ti and moved to a manual method utilizing paper copies and different coloured highlighters to code data. I found that working on paper and away from the computer screen allowed me to immerse myself in the data more completely and this increased my ability to compare and contrast the case data and interview transcriptions. Interview data was analyzed in conjunction with the case studies and data gathered from the archives and company documentation, with a view to verifying key themes. Once preliminary analysis was completed, the initial findings were reported to key informants to test the validity of the analysis.

In the second stage, I was able to cluster certain codes together; resulting in a smaller number of more focused and refined codes. By this point it was apparent that decisions made relating to the integration of staff into the acquiring firm (i.e. communication, culture, and how employees were positioned in the new firm), the nature of the work completed by the management consulting departments, and contractual agreements (or lack thereof) with partners were important issues. Table 7 outlines the final list of codes used in the analysis. The final step was to develop a conceptual framework for the successful transfer of social capital during professional service firm mergers and acquisitions. The conceptual framework will be presented and discussed in Chapter 4. As described above, these steps seem more orderly and rational than they actually were, as some overlap between the steps inevitably appeared, as occurs in almost all research processes.

TABLE 7: FINAL CODING LIST

	Codes
1	Client retention
2	Staff retention
3	Partner retention
4	Robustness
5	Length of contracts (long term versus short term)
6	Types of contracts (IT versus strategic)
7	Strategic fit
8	Organizational fit
9	Management styles
10	Culture
11	Culture clash
12	Organizational systems
13	Integration
14	Switching costs
15	Success of acquisition
16	Trusted advisor
17	Social capital development
18	Social capital maintenance
19	Social capital transfer
20	Conflict of interest
21	Communication

Social Capital Transfer

The metrics of social capital transfer applicable to my setting are described in this next section. Social capital transfer is the primary focus of this thesis and examines whether client and employee relationships can be transferred from one firm to another when a firm is bought or acquired. For most firms undergoing an acquisition, clients and staff represent a major part of the value of what has been purchased. In the context of this thesis, social capital transfer was defined as the *successful transmission or acquisition of social capital and human capital from one actor (or firm) to another.* Therefore, successful social capital transfer was the successful retention of clients and professional staff/partners *of* the acquired firm *by* the acquiring firm. Less successful or unsuccessful social capital transfer occurred when a large percentage of clients and/or professional staff/partners of the acquired firm left the acquiring firm after the acquisition. It should be noted that because of past literature on social capital transfer, at the outset of the study I inferred that retention of professional staff and partners would be equally important in their influence on the retention of staff, however, as we will see in Chapter Four, my findings differed from past literature in this regard.

I defined successful relationship transfer as greater than 70% retention of clients and professional staff/partners one year after the acquisition. I chose a 70% threshold because although firms purchase other firms with the expectation that a certain percentage of the clients and professional staff/partners will stay, it is not realistic to expect all clients and professional staff/partners to remain with a firm after an acquisition. Galpin (2007) wrote that firms would be doing well to retain 80% of employees one year after a merger or acquisition deal closes. In every acquisition, a certain percentage of employees of all levels decide that they do not want to move to a new or larger firm, or back to a firm where they have worked in the past. The same is true for clients. In every acquisition, a certain percentage of clients decide for various reasons that they no longer wish to affiliate themselves with a newly merged firm; they make the decision to follow staff that left to go elsewhere; or because of conflicts of interest or other concerns are no longer either able or willing to continue the working relationship. I chose a 70% retention rate instead of the 80% retention rate defined by Galpin because due to the nature of PSF work, professional service firm employees and their clients have very high mobility even during stable times. For example, between 2004 and 2006, attrition rates amongst professional service employees in the United States were around 28% (U.S. Department of Labor, October 11, 2006). This was due to the strong economy and the numerous opportunities for management consultants. As such, both professional staff and clients are potentially more likely to seek opportunities elsewhere after a merger or acquisition than in other industries. Therefore, an 80% retention criterion might be improbable for a PSF firm to meet.

I chose the one-year time frame because in most instances the majority of clients and staff who leave the firm do so in the first six to twelve months after the announcement of a merger (Galpin, 2007). In some acquisitions, the firm signs a contractual agreement (sometimes called a stay-back clause) with the senior partners of the acquired firm and this contracts them to stay on with the new firm for a designated period, often one year, before they receive all of their payment from the acquisition. After the one-year period is up, they are free to leave if they choose and many do at this time.

The one-year time frame is similar for clients as in many situations; clients who no longer wish to be affiliated with the firm do so as soon as their current contract is up (or earlier if applicable). However, since I was aware that some of the cases that I examined dealt with longer term IT contracts, I did examine whether long-term contracts affected client retention rates in any way (i.e. clients tied into longer term IT contracts had no choice but to stay for the duration of the multi-year contract).

Initially I did intend to use a three-year time frame as my basis to assess retention figures. This is the time frame that has been used in many past M&A studies (i.e. Greenwood, Hinings & Brown, 1994; Morosini, Shane & Singh, 1998; Sales & Mirvis, 1984; Very, Lubatkin, Calori & Veiga, 1997; Weber, Shenkar & Raveh, 1996) because of the length of time that most M&As take to integrate. However, my case study participants were quite adamant that those who leave a firm after an M&A announcement plan their departure almost immediately after a merger or acquisition is announced. Senior participants that I spoke to felt strongly that if a three year timeframe was used to assess retention rates, there were too many other criteria that could have caused staff to leave (i.e. economic reasons, career opportunities, family considerations etc.)[9]. In addition, CCC prides itself on the speed that they are able to integrate firms. On average their integrations take six to twelve months rather than the two to three years that are the industry average (i.e. Greenwood, Hinings & Brown, 1994; Morosini, Shane & Singh, 1998; Sales & Mirvis, 1984; Very, Lubatkin, Calori & Veiga, 1997; Weber, Shenkar & Raveh, 1996). I was able to obtain staff and client retention rates for the three years following the acquisition since 2008 was the year that I was on site performing interviews. In all four cases, the changes in the staff and client retention rates were negligible from 2006 to 2008.

[9] As part of my interviews with senior management staff at each location, I did inquire as to whether they performed exit interviews with departing staff in order to obtain accurate assessment of why staff left. In all cases, they said no, that in their experience staff only admitted to leaving to pursue better career opportunities, so they did not feel that they would ever have people admitting to leaving because they weren't happy because of an acquisition announcement.

It is important to note that although my overall definition of social capital transfer places professional and partner retention together in the same category, I examined professional staff (i.e. management consultants) and partners separately as *a priori* I considered that partners would possess greater social capital than professional staff. Whether or not this was actually true will be examined in detail in Chapter 4.

Criteria for Judging Qualitative Findings

Prior to turning to my findings in the next chapter, it is important to discuss the factors that assist in judging qualitative findings. Qualitative research is a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that make the world visible. These practices turn the world into a series of representations, including field notes, interviews, conversations, photographs, recordings and memos to self (Denzin & Lincoln, 2005: 3). As such, qualitative methods do not follow the precise standards of validity, reliability and generalizability of quantitative research; however, researchers still ensure the veracity of observations and the objectivity of findings (Stewart, 1997). Qualitative researchers, who frame their studies in an interpretive paradigm, think in terms of trustworthiness as opposed to the traditional, positivistic criteria of internal and external validity, reliability, objectivity and generalizability (Denzin & Lincoln, 1994; Lincoln & Guba, 1985; Padgett, 1998). Denzin and Lincoln (1994) suggested four factors for judging the soundness of qualitative research and establishing the trustworthiness of findings from qualitative research: credibility, transferability, dependability and confirmability. They argued that these four criteria better reflect the underlying assumptions involved in most qualitative research. Many quantitative researchers suggest quantitative criteria can be applied equally well to qualitative data. However, no one has yet done a thorough job of translating how quantitative criteria might also be applied to qualitative research. Therefore, in order to have a thorough understanding of how to best assess qualitative data, I will first discuss the traditional criteria for judging *quantitative research*: validity, reliability, objectivity and generalizability and then contrast these items with Denzin and Lincoln's (1994) criteria for assessing *qualitative* research: credibility, transferability, dependability and confirmability. In addition, I also add one other important criterion for assessing both quantitative and qualitative research: rigour.

Traditional Criteria for Judging Quantitative Research

Validity: Validity is the strength of our conclusions, inferences or propositions. A number of strategies were deployed within this research to ensure that the descriptions presented in the upcoming chapters accurately reflected what were observed. Foremost among these was the use of multiple sources of data (Eisenhardt, 1989; Jick, 1979). Drawing data from interviews, as well as archival sources and direct observation permits a form of 'convergent validity' (Campbell & Fiske, 1959; Leonard-Barton, 1990). Multiple sources of evidence, if they provide similar results or insights, provide substantial reinforcement of the validity of observations. In this research, the richness of the data set, derived from diverse actors offering different perspectives on the same phenomenon, allowed the researchers to look for multiple interpretations of single events. The use of multiple sources should not be confused with triangulation, as triangulation is the use of more than one approach or method when gathering data in order to enhance confidence in the ensuing findings (Denzin, 1970). In this dissertation, the use of interviews was triangulated with the use of archival data and direct observation.

A discussion about validity must differentiate between internal validity and external validity. *Internal validity* is the approximate truth about inferences regarding cause-effect or causal relationships. Internal validity is only relevant in studies that try to establish a causal relationship. It is not relevant in most observational or descriptive studies, for instance. The key question in internal validity is whether observed changes can be attributed to your program or intervention (i.e., the cause) and *not* to other possible causes (sometimes described as "alternative explanations" for the outcome). In my study, the issue of internal validity was handled by conducting multiple iterations and follow-ups during the analyses. *External validity* is the extent to which the results of a study are generalizable or transferable. External validity was increased in this study by studying four different cases and analyzing comparative findings.

Reliability: Reliability can be defined as the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects (Huberman & Miles, 2002). In short, it is the repeatability of your measurement. It is important to identify the steps taken in order to ensure that your observations are free from bias and another researcher might draw similar conclusions using the same observations. First among these is that the researcher consciously attempts to remain open to new insights or observations that are outside the theoretical constraints imposed by a particular conceptual framework. In this study I addressed the problem of reliability by meticulously following required documentation and transcription standards. Another important factor in ensuring the reliability of my research came from the transparency of the data and the data analysis (Pettigrew, 1995). One degree of assessing transparency is the use of publicly available documentation and "secondary" data that consists of analyses by outsiders of similar data (Suddaby, 2001: 95).

Objectivity: Objectivity is the degree to which research results can be confirmed by other researchers (Lincoln & Gruba, 2003). Objectivity of my observations was achieved through respondent validation. Repeated contacts with a subset of my interview subjects allowed an opportunity to obtain feedback on my conceptual categories as they were being developed. Similarly, the opportunity to discuss my research with my supervisor and with other interested scholars provided an important source of feedback that, ultimately, enhanced the objectivity of my observation and conclusions.

Generalizability: Generalizability is the ability of other researchers in the same setting to replicate findings (Huberman & Miles, 2002). Until recently, qualitative research paid little attention to the issue of generalizability. The major contributing factor to this disregard appears to be a widely shared view that it is unimportant, unachievable or both (Huberman & Miles, 2002). Qualitative researchers do not expect other researchers in the same setting to replicate their findings in the sense of coming up with a precisely similar conceptualization. As long as other researchers' conclusions are not inconsistent with the original account, differences in the reports do not raise serious questions related to validity or generalizability (Huberman & Miles, 2002).

It is my hope that my findings regarding successful social capital transfer will be generalizable to a larger population. My confidence in this possibility is based on the fact that case studies are considered to be generalizable if the treatment of the data is "sufficiently generic" (Pettigrew, 1995). Generalizability of my findings will potentially allow me to contribute theoretically to the merger and acquisition, social capital and professional service firm literature.

Criteria for Judging Qualitative Research

I now contrast the above criteria used for judging quantitative research with Denzin and Lincoln's (1994) criteria for judging qualitative research. These four criteria consist of: credibility, transferability, dependability and confirmability. Each will be discussed in turn.

Credibility: Credibility refers to the confidence one can have in the truth of the findings. It involves establishing that the results of the research are believable from the perspective of the participant in the research (Lincoln & Gruba, 2003). Credibility can be established by various methods (i.e. interviews, secondary data, archival data) of which triangulation is one of the most important (Denzin, 1978).

That is, it is important to assess the degree to which the descriptions accurately reflect what was observed, that others are likely to draw the same conclusions as the author given similar opportunities to view the data and the degree to which observations in this context might be applicable to other contexts. Therefore, I used multiple sources and multiple methods –in particular, the use of interviews supplemented by a daily record of impressions and informal observations, as well as archival research such as annual reports and the use of secondary sources such as staff retention data.

Transferability: Transferability refers to the degree to which the results of qualitative research can be generalized or transferred to other contexts or settings. The qualitative researcher can enhance transferability by doing a thorough job of describing the research context and the assumptions that were central to the research. Basically it means that other researchers can apply the findings to studies of their own (Bowen, 2005). To provide for transferability, my study provided "thick" and "rich" descriptions of the phenomena studied. My study provides a very detailed description of how my research methods were developed and also gives numerous examples from my interviews to illustrate my findings.

Dependability: Dependability refers to the stability of findings over time and the internal coherence to the data in relation to the findings, interpretations and recommendations (Denzin & Lincoln, 1994). The idea of dependability emphasizes the need for the researcher to account for the ever-changing context within which research occurs. The research is responsible for describing the changes that occur in the setting and how these changes affected the way the researcher approached the study. My study looks at acquisitions that took place in 2005, yet my interviews took place in 2008. To ensure dependability of findings, I interviewed a variety of individuals from each location and took care that I was hearing similar themes in my interviews before closing off the interview process.

Confirmability: Confirmability refers to the degree to which the results could be confirmed or corroborated by others. There are a number of strategies for enhancing confirmability. The researcher can document the procedures for checking and rechecking the data throughout the study. Another researcher can take a "devil's advocate" role with respect to the results, and this process can be documented. The researcher can actively search for and describe any *negative instances* that contradict prior observations. And, after the study, one can conduct a *data audit* that examines the data collection and analysis procedures and makes judgments about the potential for bias or distortion. To ensure confirmability I built into data analysis steps for checking and rechecking my data. I did this by having colleagues who were not involved in my research study read sections of my paper and offer comments; I provided my case study write ups to key contact people at each interview site in order to confirm the accuracy of my case study write ups; and finally I ran my results by my supervisor on a regular basis and he played the role of devil’s advocate. The last important criterion when discussing either quantitative or qualitative research findings is rigour.

Rigour: Rigorous research applies the appropriate tools to meet the objectives of the investigation. Prior to determining the type of investigation most appropriate for a study, the researcher asks themselves a series of methodological questions such as: Do the data collection tools produce information that is appropriate for the level of precision required in the analysis? Once the data is collected, to what degree are the analytic techniques likely to ensure the full range of relevant and salient themes and topics (Ryan & Bernard, 2000)? Rigorous research is also both transparent and explicit. The researcher needs to be able to describe to their audiences what they did (or plan to do) in clear, simple language. Clearly describing how themes are identified, how codes are developed and applied, and how models were induced all help to bring rigour to qualitative research (Ryan & Bernard, 2000). To ensure rigour of my study, I considered several different methodologies prior to determining that my desire to compare and contrast successful versus unsuccessful examples of social capital transfer made a case-based approach the best fit with my objectives. I have also described in detail the steps of my case study analysis in an effort to ensure that readers find my research transparent and clear.

Summary

This chapter has explained and justified the empirical focus and the methods used in this dissertation. Chapter Four discusses the findings resulting from the analysis of the four cases, paying particular attention to what can be deemed successful and unsuccessful social capital transfer practices.

Chapter 4

Findings and Discussion

This chapter highlights the main findings of my research resulting from the analysis of the four cases, and culminates in a framework comprising organizational practices that play a role in the successful or unsuccessful transfer of social and human capital. In particular, I focus on identifying practices that encouraged clients and professional staff members to remain at CCC after the acquisitions were completed, even when partners left. The chapter is divided into five sections. In the first section I provide a general overview of findings, including a revised 2x2 matrix of the successful and unsuccessful cases. In section two, I examine social capital retention at all four offices. Based on the literature and my interviews I develop five themes and examine each of these to determine what impact, if any, these themes had on client retention. In the third section, I examine human capital retention from the project team perspective and assess what made professional staff members stay on at CCC even if partners left. Using the literature and the results I review three overarching themes and determine what impact, if any, these practices had on team retention. In the fourth section I examine human capital retention from the partner perspective and assess what factors encouraged the acquired partners to remain at CCC after the acquisition. Using past literature and the results from my interviews, I investigate three themes to see what impact, if any, these had on partner retention. In the last section I summarize the successful and unsuccessful practices determined from my results and provide a summary model.

Overview of General Findings

At the beginning of this dissertation I contend that social capital is a critical dynamic in the success or otherwise of the acquisition process, particularly when examining client and staff retention. A significant focus of my research has been to determine the impact of the transfer of social capital on professional service firm mergers and acquisitions. Social capital is important in the M&A environment because many acquisitions are undertaken in an effort to take advantage of the existing resources of the target firm. These resources include the target firm's client list, as well as employees (both professional staff and partners). Consequently, the literature in this area has hypothesized that to achieve effective resource transfer between acquired and acquiring firms, a certain percentage of the individuals and groups who provide the most value to the firm (i.e. clients for the work they provide and the professional staff and partners because of their knowledge, experience and contacts) must remain with the acquiring firm and co-operate with resource sharing initiatives. Therefore, to successfully transfer social capital (clients), there must also be successful transfer of human capital (professional employees and partners). However, my results show that although successful human capital transfer is key in professional service firm M&As, retention of the professional staff is more important to the retention of clients than the retention of partners, at least in the shorter term. In this study all four firms were successful in retaining clients and professional staff, however, only two of the offices achieved success in retaining partners.

In Chapter Three I outlined the format for obtaining the four firms used in my case study. Initially, my contact at CCC provided me with two firms that CCC felt had undergone successful acquisitions in 2004 and 2005 as well as two firms that were considered to have undergone unsuccessful acquisitions during the same timeframe. According to CCC criteria, which focused exclusively on professional staff and partner retention, the two successful firms after the acquisition were Edgewood and Fanfare and the two unsuccessful firms were Quantum and Middleton. A 2x2 matrix of the initial successful and unsuccessful office breakdown was provided in Table 3 on page 99. After the completion of my analysis utilizing the evaluation criteria for social and human capital transfer outlined in Chapter 3, I discovered that instead of one 2x2 matrix, I had three separate 2x2 matrices. The revised matrices were primarily the result of my measures of success including client retention (social capital) as well as dividing employee retention (human capital) into two categories (professional staff and partners), rather than solely focusing on human capital retention. Below in Table 8 are the revised 2x2 matrices showing the breakdown of successful and unsuccessful firms obtained from my findings, from a client retention perspective, professional staff perspective and partner perspective.

TABLE 8: REVISED 2X2 SUCCESSFUL AND UNSUCCESSFUL SOCIAL AND HUMAN CAPITAL TRANSFER

Social Capital (Clients)

Successful	Quantum	Fanfare	Edgewood	Middleton
Unsuccessful				

Human Capital (Professional Staff)

Successful	Quantum	Fanfare	Edgewood	Middleton
Unsuccessful				

Human Capital (Partners)

Successful	Quantum	Fanfare
Unsuccessful	Middleton	Edgewood

In order to fully explain the revised 2x2 matrices, it is necessary to examine Table 9 on page 134. Table 9 illustrates the retention rates of clients and professional staff/partners one year and three years after the acquisition for the four cases examined in this study and assesses whether the acquisition has been deemed a success according to the criteria set out in Chapter Three.

TABLE 9: SUCCESSFUL VERSUS UNSUCCESSFUL HUMAN AND SOCIAL CAPITAL

Cases	Size of Acquired Firm[10]	Size of Acquiring CCC Office[11]	Human Capital (professional staff) (1 year)[12]	Human Capital (partners) (1 year)[13]	Human Capital (professional staff) (3 years)[14]	Human Capital (partners) (3 years)[15]	# of Clients at Time Acquisition Announced[16]	Social Capital (clients) (1 year)[17]	Social Capital (clients) (3 years)[18]	Success Threshold for Human and Social Capital[19]	Degree of Successful Human Capital Retention (Professionals)	Degree of Successful Human Capital Retention (Partners)	Degree of Successful Social Capital Retention
Fanfare	425 (350/75)	1000	280/80%	60/80%	280/80%	60/80%	~150	90%	90%	70%	Successful	Successful	Successful
Quantum	100 (85/15)	900	64/75%	11/73 %	60/70%	11/73%	100	95/95%	95/95%	70%	Successful	Successful	Successful
Edgewood	30 (25/5)	300	22/88%	0	20/80%	0	15	90%	90%	70%	Successful	Unsuccessful	Successful
Middleton	125 (100/25)	6000	73/73%	5/20%	70/70%	4/18 %	233	210/90%	210/90%	70%	Successful	Unsuccessful	Successful

[10] Total #/% of total firm employees of the acquiring firm at the time the acquisition was announced (professional staff/partners)
[11] Total #/% of total firm employees of the acquired firm at the time the acquisition was announced
[12] #/% of acquired professional staff remaining one year after the acquisition
[13] #/% of acquired partners remaining one year after the acquisition
[14] #/% of acquired professional staff remaining 3 years after the acquisition
[15] #/% of acquired partners remaining 3 years after the acquisition
[16] # of clients in the acquired firm at the time the acquisition was announced
[17] #/% of clients retained 1 year after the acquisition
[18] #/% of clients retained 3 years after the acquisition
[19] As determined in Chapter Three

My results found that all four firms were successful in retaining social capital (clients) after the acquisition was announced. All four achieved a minimum retention rate of 90% of their clients after the acquisitions. Edgewood, Fanfare and Middleton retained 90% of their clients while Quantum retained 95%. These results remained consistent both one and three years after the acquisition.[20]

I was unable to speak to clients over the course of this study; therefore I am unable to fully determine why clients stayed with the acquiring firm after the acquisition and have had to base my conclusions from the perception of the partners and professional staff that I interviewed. However, from my interviews, it was repeatedly mentioned that the primary concern of clients was whether their project team would remain on site with them. Once they were assured that their projects would continue as is with the project teams primarily intact, their worries appeared to cease. As the retention of the professional staff at all four cases remained high, this confirms that the onsite project teams most likely did stay the same and also speaks to the strong social capital that the project teams had developed with their clients. The strong social capital apparent between the project teams and clients led to client retention. This idea will be discussed further later in this section as well as in Chapter Five.

[20] A reminder that Fanfare did end up moving 50 highly classified clients to a separate firm. This loss of clients was not included in my retention figures for Fanfare as these clients did not leave of their own volition, instead this decision was made by CCC and Fanfare.

Regarding the retention of human capital[21], I analyzed professional staff and partners separately. The retention of professional staff at all four firms met or exceeded the criteria set at the data analysis stage. Fanfare retained 80% of their professional staff one year after the acquisition. Three years after the acquisition, retention remained at 80%. Quantum retained 75% of their professional staff one year after the acquisition and 70% of the professional staff three years after the acquisition. Edgewood retained 88% of their professional staff one year after the acquisition and 80% three years after the acquisition. Middleton retained 72% of their professional staff one year after the acquisition and 70% of their staff three years after the acquisition.

For partners, two of the firms (Fanfare and Quantum) were considered successful in the partner retention category because Fanfare retained 75% of partners while Quantum retained 70% of their partners one year after the acquisitions were completed. Three years after the acquisitions, retention levels remained the same. Edgewood and Middleton were considered unsuccessful regarding partner retention according to my criteria because Edgewood retained 0% of their partners and Middleton retained 20% of their partners one year after the acquisitions were completed. Three years after the acquisitions, partnership retention levels had decreased slightly to 18% at Middleton as partners continued to leave the firm. Some of the continued decrease of partners at Middleton was due to natural attrition of professionals (new employment opportunities or retirements for example), but one of the partners I interviewed was planning to

[21] Recall that my threshold for success was set at 70%.

retire two months after our interview because of his continued frustration over the acquisition, as well as the way the integration of the two firms was undertaken.

There were various reasons mentioned by interview participants to account for the loss of partners and professional staff after the acquisition. The mobility of professional service firm employees has always been high and during the time of the acquisition (2004/2005) and the time of my interviews (2008), the economic market was very strong and this translated into strong employment opportunities for professional service employees. During times of opportunity, attrition rates of 25-30%[22] in the professional service sector are common and therefore, the movement by partners and professional staff seen at the four offices interviewed was considered to be largely because of natural attrition due to new career opportunities. The interview participants at three of the offices felt that partners and professional staff who left CCC after the acquisition did so because of better job opportunities or because they preferred to work in smaller management consulting firms. However, the interview participants from the Middleton office categorically stated that the loss of partners and professional staff at their office was due to the poor integration of the two offices after the acquisition. However, none of the offices performed exit interviews with professional staff or partners who left the firm. I was told by senior management at all four offices that in their experience staff only admitted to leaving to pursue better career opportunities, not

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[22] Data supplied by the U.S. Department of Labor, Bureau of Labor Statistics (October 11, 2006) documents employee turnover in the professional and business services sector at 27.8% in 2005/2006 and at 28.5% in 2004/2005 (http://www.nobscot.com/survey/index.cfm

because they were unhappy with an acquisition. Therefore, we must determine the cause for attrition by relying on retention literature as well as the participant interviews.

In the next sections I examine what factors were influential in encouraging clients and professional staff to remain at the firms after the acquisitions, particularly at the offices where large numbers of partners left. I examine each category separately, beginning first with social capital retention.

Social Capital Retention

As mentioned previously, all four firms were successful in retaining clients after the acquisitions although two of the firms had a significant number of partners leave after the acquisition announcement. This was an interesting finding because past research has found that the exit of partners involved in exchange relationships increases the likelihood of exchange relationship dissolution (Broschak, 2004) while increases in the tenure of partners strengthened exchange relationships (Seabright, Levinthal & Fichman, 1992). Finding out that clients didn’t necessarily leave a PSF firm when partners left motivated my interest to determine what factors made clients stay. Using the M&A, social capital and PSF literature and the results from my interviews, I investigated five different themes and compared how each office utilized these themes to see what impact, if any, these had on client retention. Table 10 details the themes relating to social capital retention that materialized through the literature and the interview and subsequent coding process. Themes investigated included: timely communication (i.e. how clients were informed of the acquisition process); robustness of contracts (i.e. length of the project and strength of the relationship); nature of the project work (strategic versus non strategic work, public versus private sector); partner retention; and project team retention. Each of these themes will be explored below.

TABLE 10: TRANSFER OF SOCIAL CAPITAL FOR ALL FOUR CASES

	Edgewood	Fanfare	Middleton	Quantum
1. Sent out letter to tell clients to announce acquisition immediately after acquisition announcement	√	√	√	√
2. Met with clients personally	√	√	√	√
3. Familiarity with the CCC name	√	×	√	√
4. Strength of the relationship	√	√	√	√
5. Potential for Add-On Work	× (not without going through proper RFP channels)	× (not without going through proper RFP channels)	√ (due to the private sector nature of their work)	√ (to some extent due to the shorter term strategic nature of their work)
6. Switching costs for clients	√	√	×	×
7. Long term contracts/IT work	√	√	×	×
8. Short term contracts/Strategic Work	×	×	√	√
9. Public Sector vs. Private Sector	Public	Public	Private	Public
10. Client concerned if partner left	×	×	×	×
11. Concern to client if project staff/management consultants left	√	√	√	√

Timely Communication

All four firms placed significant emphasis on timely communication with their clients after the announcement of the acquisition. In this section I describe how the acquisition was announced to clients at all four of the offices and the impact that the acquisition announcement had on clients. In all four of the cases, the protocol followed by CCC for advising the clients of the merger was to send out a letter as soon as the acquisition announcement had been publicly announced. CCC deemed it of utmost importance that all clients be informed of the acquisition as soon as possible. After the initial letter to the client, they then scheduled face-to-face meetings with the client. A person from the acquired firm, as well as someone from CCC went to meet the client together. This presented an opportunity for introductions to be made, hopefully allayed any fears or concerns, and allowed the client to ask questions. In all four cases, the interview participants reported that from their perspective they felt the process in place to inform clients of the acquisition was well done[23]:

> "When we say that we will do something we try to do that and keep the client informed. And have a very rigorous approach. They (the client) appreciate that and recognize that the rigorous approach is necessary. If you come for a VIP session [VIP session is what the Quantum office called their client meetings to tell them about the acquisition] and I promise that I will find out an answer for you on some specific question, then I will follow it up for you. And I think that it is one of our strengths." (Senior VP, Quantum Office, May 5, 2008)

> "The old principals from [ACS] went along with someone from [CCC] so that they could introduce themselves to the clients and explain what was happening and what the implications were. And to say that we hope to retain our relationship because now we can offer you more things. They really tried to manage that…and since the relationships with [Edgewood] clients were built on personal relationships with the [Edgewood] partners… so if the [Edgewood partners] said that things were going to be okay, clients said they'd give it a chance and see what happens…. But certainly in order to be able to give [CCC] credibility around management consulting in particular, it was the principals from [Edgewood] that needed to deliver that message. And say, yes [CCC] now does management consulting, and it's us, and it's okay. So it was an investment in time and energy and lunch dates and dinner meetings, but I think it

[23] It must be kept in mind that this was the opinion of the management consulting professionals and not the clients, as I did not have the opportunity to personally speak to clients. It is possible that clients would have responded differently to this question.

> left doors open.” (Senior Consultant, Edgewood Office, March 10, 2008)
>
> “We called them one by one. And that was [Middleton] doing it [calling them]. So what we did was we identified client A…we called them and we visited them [the Middleton partner together with a CCC partner). All of them.” (Senior VP, Middleton Office, May 8, 2008)

Familiarity with CCC as a firm was also a mitigating factor in the ability of CCC to retain clients. Clients of Edgewood, Middleton and Quantum were already familiar with CCC as an information technology firm that mainly focused on the outsourcing market. In fact, many clients already used CCC for IT projects. Through the acquisitions of Edgewood, Middleton and Quantum, CCC hoped to broaden their service offerings by acquiring small PSF firms who specialized primarily in management consulting and project management work, rather than IT implementations or outsourcing contracts:

> “…. You don’t have to introduce [CCC] they are already known [by reputation and often by the fact that the client was already doing IT work with CCC].” (Senior Consultant, Quantum office, May 5, 2008)
>
> “90% of the time we had the same clients, but [ACS] had better positioning in some of the clients [due to the more strategic nature of their work], so for us [CCC] it was key to consolidate or enhance our presence and so it was important to work on the relationship with the client.” (Senior VP, Quantum Office, May 5, 2008)

However, in contrast to the three Canadian cases that were examined, the U.S. Fanfare Office did have to deal with the issue that most of their clients were unfamiliar with CCC as it was a Canadian owned firm that was trying to expand its services into the U.S. market. Initially, there was some potential concern with the impact that name recognition could have on client transfer and client work. Clients in the United States weren't entirely familiar with the [CCC] brand name:

> "There are issues with a foreign owned company doing business with the federal government. Not only security issues, but also certain stigmas. For example, clients would say things like "I don't want to give my business to a foreign owned company when there are US companies who can do the work." (Director, Fanfare Office, April 23, 2008)

In order to compensate for this lack of reputation in the U.S. market, Fanfare advised their clients of the acquisition first with a letter and then followed up in most cases with a face-to-face meeting with the client and the client engagement manager from Fanfare. The difference in the approach used by Fanfare was that in most cases they met with their clients without the assistance of a CCC representative. This was done to reassure clients that things were not going to change, and that they would still have contact with their current project team staff. Similar to the Edgewood, Middleton and Quantum offices, Fanfare clients did not seem to be tremendously fazed by the acquisition announcement once they met with the Fanfare staff. Their comfort level was partly because the numerous acquisitions that were going on in the U.S. business world at that time resulted in clients being exposed to mergers and acquisitions in others facets of their business as well.

> "A standard letter was sent out….Most of the clients were, 'A Canadian company – interesting. But is it you who will still be doing the work?' And we'd be like yeah, and they'd say, if it is, then okay." (Senior Consultant, Fanfare Office, April 24, 2008)

As can be seen above, timely communication played an important role in client retention. As stated in the literature, a best practice is to communicate with clients as quickly as possible about the merger and anticipated effects of the change (Ashford, Lee & Bobko, 1989; Bowditch & Lewis, 1985; Schweiger & De Nisi, 1991; Schweiger & Ivancewich, 1985). Quick communication assists in easing managerial stress, trust in the organization and commitment and may have been a factor in the high retention of clients. The relational aspect of social capital was also at play (Nahapiet & Ghoshal, 1988). The strong relationship ties that Fanfare's clients had with the professional staff enabled them to trust the professionals and remain with them even after the acquisition had taken place. I now assess the impact of the 'robustness of contracts' theme.

Robustness of Contracts

I have defined 'robustness of contracts' as the strength of the relationship between the client and the professional service firm. This enduring relationship is defined by the length of the contract (the longer the contract presumably results in a more enduring relationship), the number of add on contracts (i.e. add-on work is the ability of the professional service firm to sell additional work after the completion of a project) and the cost to the client for switching to another firm (if the cost is substantial, clients are more likely to stay with the current professional service firm, rather than moving to a new one). For example, a client-consultant relationship that consisted of strategic work performed by the professional service firm, a direct line to senior members within the client organization, numerous add on pieces of work or a longer length of contract would be considered a more robust relationship than a client-consultant relationship that consisted of lower level or information technology implementation projects that might be longer term in nature, but did not involve the development of pivotal relationships with senior members of the client organization. The three aspects of robust contracts are discussed below.

Length of Contracts: The different offices were involved in different types of client work. The offices that did more information technology projects (i.e. Fanfare and Edgewood) tended to have longer-term contracts that were locked in for lengthy periods of time (i.e. multi-year). In contrast, the offices that focused more on strategic work (i.e. Quantum and Middleton) tended to have shorter-term projects (i.e. three to six month terms).

The longer term IT projects involved professional staff members who worked offsite for periods of one year or more. In most cases this allowed the management consultant to develop strong relationships with the client since they worked onsite for such a lengthy period of time. However, the consultants working on these projects were often lower-level management consultants who lacked the ability to sell additional add-on client work or make strategic project decisions. In addition, the client staff working on the IT project was also usually in the mid level management range. This made it difficult to sell additional add on work or even discuss future project collaboration opportunities because the management consultants had not developed relationships with the client representatives with decision making power. Even though these projects were longer term in nature, due to the fact that they utilized lower level staff without the ability or mandate to sell additional add on work, this placed the work into the less robust contract category.

> "I've been on one site for 2 years and another for 18 months, and they've extended me for another 2 years." (Senior Consultant, Edgewood Office, February 28, 2008)

In contrast, the shorter-term strategic management projects, by the very nature of the work involved, required experienced and highly skilled management consultants and significant face time with a more senior level of client. Many of these senior consultants were also tasked with the mandate of selling client work and the expertise of these individuals allowed them to be very relationship focused with the ability to strategically assess opportunities for additional add on work. The strategic level of this type of work and the face time with the senior level of client resulted in this type of work being classified as more robust in terms of its ability to retain clients and staff. CCC is also able to charge higher rates for this kind of work due to the strategic nature of the work and the higher expertise of the professional staff involved on the project:

> "A senior [senior level, experienced consultant] is very useful because he works on the client side and he asks information about the client's plans. You see opportunities coming, you say 'well, I saw that maybe this ministry will launch a project, are you available to come in for a meeting? We'd like to talk about this opportunity'…After the session, they'll [the client] say – 'you are the guy to help us out because you know the client so well." (VP, Quantum Office, May 5, 2008)

Although CCC was definitely interested in the strategic potential of the Edgewood, Middleton and Quantum acquisitions, there certainly seemed to be a mindset in the Edgewood office that having a large number of longer-term IT contracts was more beneficial to the firm than shorter term strategic projects. As will be discussed below in the "nature of the work" section, it appeared that the Edgewood office was potentially missing out on strategic opportunities by placing priority on longer-term IT project work. The Edgewood CCC VP's rationale for longer-term work follows below:

> "Typically a firm like [CCC], because of our size, and our critical mass at least in the Canadian marketplace, we will not eye a firm just to get the bodies. Okay, we will buy a firm hopefully because they have good people, for sure, but we can attract good people ourselves. We're probably more interested in, you know, the contracts they have, the relationships they have and most importantly, do they have long term contracts." (Senior VP, Edgewood Office, February 14, 2008)

> "In a professional service firm when you do an acquisition, if you pay good money for the firm on day one, and if all the people [staff] decide to go elsewhere on day 2, then you get nothing…. So a lot of what we're looking when we do an acquisition is either a long term contractual relationship, or at the very least, long-term relationships that appear to be solid enough that they'll continue to generate revenue down the road." (Senior VP, Edgewood Office, February 14, 2008)

Add-On Work: Three of the offices (Fanfare, Edgewood and Quantum) had a roster of primarily public sector clients. Public sector clients have a decidedly different way of retaining professional service firms, as well as strict regulations regarding the awarding of add-on work. It is mandatory that they go through a request for proposal (RFP) process each and every time they wish to staff a project. They are unable to award work to professional service firms that they have established relationships with without going through the RFP process. In addition, they often cannot award lengthy contract terms either. The request for proposal might initially be for one year, even if the project is expected to take multiple years. The firm that wins the proposal has an advantage as the incumbent the next time they bid on the work, but they are still required to go through a formal process to win the work each time the contract term ends:

Private sector firms do not have these same stringent regulations to follow with regards to how they award PSF contracts; therefore, there are more opportunities for professional service firms to develop strong working relationships with clients that enable them to pursue add-on work as the need arises without having to go through the RFP process. The Middleton office was the only case examined in this research project that worked almost exclusively with private sector clients. From an add-on work perspective, Middleton was able to take advantage of pursuing add-on work opportunities once they were established with a client, as was Quantum to a lesser extent because they also had a roster of private sector firms, and their project work for both public and private sector clients was almost all of a shorter-term nature. It is apparent that shorter, more strategic work was advantageous from an add-on work perspective, although the longer-term locked in work was an advantage when looking at switching costs.

Switching Costs: As discussed previously in Chapter Two, switching costs can impact the robustness of a client contract and are a factor discussed in the literature on M&As. Switching costs are costs that consumers incur when switching from one service provider to another. The higher these costs are the more difficult it is to execute the switch. In professional service firm contracts, clients face potential switching costs if they choose to end a project prior to the end of a contract. This might be for a variety of reasons such as unhappiness with the quality of work produced by the PSF, or choosing to follow a professional staff member who leaves a PSF firm or perhaps because the client disagrees with an acquisition announcement. To combat switching costs, many firms appreciate having long-term contracts in place so that clients are unable to leave until the completion of the project. A Senior VP at the Edgewood office spoke extensively about the value of long-term contracts:

> "But, the starting point for us would be looking at the financials. And, how much of that is locked in…. Particularly with a smaller firm, in the professional services world, lots of them have repeat business from individual clients, but relatively small contracts (i.e. two or three month contracts with this firm, and then next year you might do another one month contract with that firm). And then two years later, you might do 2 small contracts with that firm. So there is a running track record there…and certainly we will look long and hard at how much of the current revenue from the company is something that is clearly repeatable." (Senior VP, Edgewood Office, February 14, 2008)

Acquiring companies with considerable long-term contracts appeared to be one way that CCC attempted to ensure acquisition success and eliminated the worry of switching costs. Having a significant amount of locked in work potentially meant that even if professional staff and partners' left after the acquisition, the locked-in work would not follow them. However, it can be argued that some offices were missing out on opportunities that the acquisition hoped to generate by focusing on longer-term, lower-paying IT implementations, rather than shorter-term, higher-paying, strategic work. I examine this idea more closely in the next section and it also is an important factor when we discuss partner retention (or the importance of retaining partners even if clients and professional staff do not leave when partners leave) later on in this chapter, as well as Chapter Five.

Nature of the Project Work

'Nature of the project work' refers to the type of project work performed by the organization. This organizational factor is closely related to the robustness of contracts topic discussed above. However, in addition to primarily focusing on the length of project, the nature of the project work also focuses on the type of project the professional staff was involved in. One challenge that the Edgewood, Middleton, and Quantum offices dealt with was that ACS [the acquired firm) had a reputation for doing higher level, strategic consulting work, while CCC [the acquiring firm] had a reputation for being solely an information technology firm. This was one of the reasons why CCC was interested in acquiring the ACS offices. In the case of the Edgewood office, CCC did not even have a management-consulting department before they acquired ACS. The initial hope was that the former ACS staff would form a ready-made management-consulting group with access to key strategic level projects. This access to higher-level work would increase the synergy and strategic fit of the acquisition. CCC did have management consulting departments in place at their offices in Quebec City and Montreal (where the Quantum and Middleton offices were located), although the original CCC consulting groups focused primarily on large scale enterprise resource planning (ERP)[24] implementations and the change management issues surrounding an IT implementation of this kind. Therefore, when the acquisition was announced, some pre-acquisition clients of the Edgewood, Quantum and Middleton offices initially made the assumption that these offices would no longer do strategic consulting assignments once integrated with CCC, but would instead focus exclusively on IT work. To compensate for this misinterpretation, a moderate amount of communication (i.e. face to face, letter) was completed in order to assure clients that the Edgewood, Middleton and Quantum offices still hoped to complete the same kind of high-level strategic work as part of CCC. Fanfare was the exception, as this office focused primarily on Federal Government work, and much of the work was already IT based in nature, and they were expected to continue to do this work into CCC. (Recall that CCC purchased Fanfare to get into the U.S. Federal Government market):

> "…With us [Edgewood] going to [CCC], what our clients knew of CCC is that they were IT, so they [the client] would think well, we won't use you guys anymore because you're now IT people. So there was much more a sense that we needed to really explain the message." (Senior Consultant, Edgewood Office, March 10, 2008)

> "Same customer base, but [as Quantum] we were in a special niche [strategic] and were recognized for that by our customers. [CCC] was not in that niche but more in the operational [IT] kind of stuff. So, for some customers it [the acquisition] was good news but some other ones had concerns about our integrity and independence." (VP, Management Consulting, Quantum Office, May 5, 2008)

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[24] Enterprise Resource Planning (ERP) is software system designed to support and automate the business processes of medium and large businesses. This may include manufacturing, distribution, personnel, project management, payroll, and financials (http://encyclopedia2.thefreedictionary.com/Enterprise+Resource+Planning, March 5, 2010).

> "[CCC] I think for many people is IT, information technology. When you say [CCC], you don't think about someone who is going to help you with your planning, your strategy, your change management. You think about [CCC] as information technology and I think that was the big shocking thing for them. Not in a negative way, but it was like, hmm what are we going to do there." (Senior Consultant, Middleton Office, May 7, 2008)

Although the assurances appeared to assist in retaining clients, interview participants raised the issue that in some cases the nature of work and the level of client that they worked with changed after the acquisition. For example, in the Edgewood office, two of the partners left soon after the transition. These two partners were very charismatic and had a lot of social capital due to their numerous business and personal contacts. After the two Edgewood partners left, CCC continued to do work with a lot of the same clients; however, some of the top level work that was completed by the Edgewood office prior to the acquisition was not renewed although they did not lose the clients:

> "We still deal with the same client organizations. But I think we lost some of the executive level work when _____ and ______ left. Some of that work gravitated away….We don't come in at the top anymore. But we kind of hover around some of the big projects that are going on and add value to clients, figure out some of the business problems, almost a pre, pre-requirements step." (Director, Management Consulting, Edgewood Office, Feb 19, 2008)

It wasn't that the Edgewood CCC office didn't want the top-level work, but more that they weren't entirely sure how to develop the synergy through the formation of these higher-level relationships. In addition, the Edgewood CCC office didn't have the necessary higher-level contacts after the two Edgewood partners left without transferring some of these relationships. As one participant said:

> “We were dreaming about all these higher level relationships…we wanted to get to know the CEO, but then once you get there, what do you say? We’re a great outsourcing company and we have this management consulting practice. And their next question is, so what are you bringing? …Then they go on to say, it’s not the [Edgewood] that I knew because you lost _____ and ______ [the partners who left]. The client says I went to those guys because they were independent and lower priced and they were fun to work with.” (Director, Management Consulting, Edgewood Office, February 19, 2008)

All four offices dealt with scenarios after the acquisition where work that they had completed in the past could no longer be completed due to a conflict of interest. A conflict of interest occurs when an individual or organization is involved in multiple competing interests, one of which could *possibly* corrupt the motivation for an act in the other (Webster’s Dictionary, 2010). The conflict of interest was usually due to CCC being primarily an information technology company. (At Fanfare the issue was because of the highly secretive nature of much of the federal work they were doing and the fact that CCC was a Canadian, not American company). Prior to the acquisition, the Edgewood, Middleton and Quantum firms were often brought in by clients to perform a variety of different types of analysis on CCC. Some of this work included vendor or outsourcing analysis (i.e. evaluating a number of competing vendors or outsourcers (one of which would be CCC) before one was chosen to complete an IT project). After CCC acquired the Edgewood, Middleton and Quantum offices, it was no longer feasible for the consulting departments to perform this work as they would essentially be evaluating and potentially awarding the work to their own firm, even though the IT work was performed by a different group than the management consulting group.

> "We had some sensitive areas where we had been chosen 2 months before to make an outsourcing analysis and now we were part of the outsourcer so there was a conflict of interest." (Director Management Consulting, Middleton office, May 7, 2008)

> "Sometimes we had difficulty with some proposals because the client would say that if one vendor [is already working] on one project, then they cannot bid on this other one….When we were with [ACC] we did not have this problem because we did not do development work. So we lost some projects due to confidentiality." (VP, Quantum Office, May 5, 2008)

> "[Some of our clients] were very much sold on the idea of us being completely independent, agnostic, and all that kind of good stuff. So then coming into a big IT company…we lost a lot of work at one of our clients because of the affiliation. The group that [ACC] used to be doing a lot of work for, basically said, 'you're not doing that kind of work anymore'." (Director, Edgewood Office, February 19, 2008)

Conflict of interest scenarios accounted for a small percentage of the client loss reflected in the retention figures in Table 9 found on page 134 (approximately two to three clients per office). In addition, one or two clients per office followed partners that left CCC after the acquisition and transferred their work to them. However, these scenarios were the exception rather than the rule. As mentioned at the beginning of this section, in all four cases client retention achieved ran in the 90% range both one and three years after the acquisition, therefore clients primarily remained with CCC after the acquisition took place. Next, I briefly discuss the impact partner and project team retention had on client retention.

Partner Retention

As mentioned at the outset of this chapter, two of the firms (Fanfare and Quantum) were considered successful in the partner retention category because Fanfare retained 75% of partners while Quantum retained 70% of their partners one year after the acquisitions were completed (recall that the minimum retention threshold for this study was set at 70%). Three years after the acquisitions took place, retention levels remained the same for both offices.

The other two firms studied, Edgewood and Middleton, were considered unsuccessful regarding partner retention according to my criteria because Edgewood retained 0% of their partners and Middleton retained 20% of their partners one year after the acquisitions were completed. Three years after the acquisitions partnership retention levels had decreased slightly to 18% at Middleton as partners continued to leave the firm. The factors that influenced partners to stay or leave after the acquisition will be discussed later on in this chapter.

Although past research has shown that partner retention can have significant impact on client retention (i.e. Broschak, 2004), this did not prove to be the case in this study. Even in the offices that saw significant numbers of partners leave the firm after the acquisitions took place (i.e. Edgewood and Middleton), client retention still remained high. Items perceived to be important to clients was whether their project teams would remain intact after the acquisition and if their projects would continue to proceed on schedule. Therefore, unless partners were directly involved in working on a project, clients were not as concerned if they left CCC after the acquisition. What differed in this study from earlier work on social capital retention and transfer (i.e. Broschak, 2004) is that in management consulting firms, the relationship that the partner has with the client is transferred over to the project team who works onsite with the client and completes the work. This is a different scenario than the work of advertising firms where the partner that sold the work to the client remains highly involved in the development of the ad campaign and the completion of the work is performed offsite. Therefore, other members of the advertising project team do not have the same opportunities to develop strong relationships with clients as management consultants do. This is a very significant finding and the next theme, project team retention, is the theme that appears to have the most impact on client retention after an acquisition. I now examine this aspect in detail.

Project Team Retention

In all four cases, the primary reason for clients accepting the acquisition was based on project teams retention. All twenty-nine-interview participants cited this reason during the interview process. After the initial acquisition announcement, the key concern of clients was whether their current project manager and project team would remain working with them for the duration of the project. These project team individuals were primarily at the professional level (i.e. senior consultants or managers versus partners).

The main focus of the clients was to ensure that the acquisition caused as little disruption in the progression of their project in terms of meeting deadlines and targets as possible. In all four cases, efforts were made to ensure that disruption to the client was minimal, with the same project team (or close to it) working on the project to duration.

A sample of responses and direct observation regarding client retention and the importance of the project teams remaining the same are below:

> "To a certain extent clients are buying an organization, but more so, it's the individuals [they are buying], very much so…Having consulted for a number of years, they [clients] didn't care that much about where I worked, they were more concerned about whether it would affect the rates or anything like that." (Director of Management Consulting, Edgewood Office, February 19, 2008)

> "Now that doesn't mean that we hang on to all of the clients in the long term. But, you know, on that initial call when they were advised that [CCC] was buying the firm that they used to work with, I can't think of one situation where the client was really upset. The first question they usually asked is so and so going to be around. Is he still going to work on my account and that kind of thing?" (Senior VP, Edgewood office, February 14, 2008)

> "On the customer point of view, no. On the project where I was involved it was business as usual. We had the same people…. [The client] enjoyed us before and they enjoyed us after. We were still there. It would not have been the case had we needed to remove some people, and then switched someone, a brand new person. Then the customer would say, 'oh oh, what's going on'." (Senior Consultant, Quantum office, May 5, 2008)

> "Clients did not leave, they stayed on although there was some concern as to whether the client manager would be different (it wasn't) and also the fact that a Canadian company was purchasing." (Interviewer direct observation from interviews at Fanfare Office, April 23, 2008)

> "Of the people interviewed, client transfer has not been an issue. The firm gets acquired, but the client team stays the same so to the client there really isn't a change. They pay their cheques to a different firm, but not much else changes for them." (Interviewer direct observation from interviews at Quantum and Middleton Offices, May 7th, 2008)

Interestingly, the issue of how to best transfer client relationships (either from consultant to consultant or from firm to firm) was not something that was emphasized by the project team staff or partners at any of the four offices I studied. As part of my interviews I asked participants how they went about developing, maintaining and transferring their client relationships. For most participants, the idea of developing relationships with clients was the classic idea of regular face-to-face time, whether it was taking clients out for lunch, providing them with tickets to see a hockey game, attending the opera or some other social event. All participants agreed that it was important for consultants to be able to build a trusting relationship with a client. The client must feel that they are able to confide in the consultant regarding aspects of their business.

> "There are several keys to success in building relationships with clients. One is establishing credibility and one establishes credibility by doing some basic homework before going in and talking to a client. A little homework will give you insight into how they [the client] perceive themselves and where they want to go in the future. There is also enough information publicly available to give you insight into the major problems they are facing. Going in with a high level understanding of their mission and their problems and the ability to work with them to craft solutions is key to keeping the relationship going" (Director of Management Consulting, Fanfare Office, May 13, 2008).

This section on social capital transfer indicates that timely communication, robust contract relationships, and the nature of the project work all can potentially impact successful social capital transfer when a firm is acquired. Fanfare and Edgewood had longer-term IT based contracts, and therefore less strategic, repeat work, while Quantum and Middleton focused on more strategic, short-term, and less potential for repeat projects. This echoes Hitt et al.'s (1998) finding that no single attribute alone can explain an acquisition's success or lack thereof. Additionally, partner retention did not seem to impact social capital retention as we might have expected, although project team retention did.

Using the social capital literature, it appears that the structural, cognitive and relational dimensions of social capital all play a role in client retention. The strong relationship ties (relational dimension) between the clients and the professional staff, as well as the fact that professional staff did not leave after the acquisition (structural dimension) assisted in maintaining and completing the shared project goals (cognitive dimension) after the acquisition was announced. Next, I examine the factors that influenced the retention of professional staff and partners after the acquisition. What made professional staff stay with CCC after the acquisition and what factors caused the partners at Middleton and Edgewood to leave when the partners at Fanfare and Quantum did not?

Human Capital Retention of Team Members

In the context of my study, all four firms had successful transfer of human capital of team members[25]. The Fanfare office retained 80% of professional staff both one and three years after the acquisition. Quantum successfully retained 75% of

[25] See Table 9 found on page 134 for reference.

all professional staff after one year and 70% of professional staff after three years. Edgewood retained 88% of their professional staff one year after the acquisition and 80% three years after the acquisition. Middleton retained 73% of their professional staff one year after the acquisition and 70% three years after the acquisition.

> "…Absolutely [retaining professional staff] was a goal, particularly [those working] on the client side. There's no point in buying a company if you don't retain those people because then you have nothing." (Senior VP, Fanfare Office, April 23, 2008)

> "I think that people who had the wait and see approach, once they waited and saw, have stayed. I think there might have been an initial flurry of activity, with people not willing to wait and see. But after that, everyone who got over that initial hump and said 'I'm going to stay,' I don't think there was any kind of exodus after that once they saw how it was going to work." (Senior Consultant, Fanfare Office, April 24, 2008)

> "The lower you were going into the ranks, the less different it was [moving firms]. That's why if you were able to look at the number of employees that stayed and you categorized it by level or experience, you would probably find that the percentage retained at the lower end was much higher, than the percentage at the higher [end]." (Senior VP, Middleton Office, May 8, 2008)

As will be seen, there were similarities and differences in the ways each firm transferred their human capital after the acquisition. My primary goal in this section is to explore factors that retained professional team members at all four offices even when partners left. Table 11 details the themes relating to human capital retention that emerged from my review of the literature and the interviews. The themes developed include timely communication (i.e. how surprised professional staff and partners were at the news of the acquisition; what communication they received) goodness of strategic fit (including integration activities including if professional staff were kept together as a cohesive unit after the acquisition; if the project teams remained in place; the induction process CCC initiated for the acquired staff members); and the goodness of organizational fit Each of these themes is discussed in detail below.

TABLE 11: TRANSFER OF HUMAN CAPITAL FOR ALL FOUR CASES

	Edgewood	Fanfare	Middleton	Quantum
1. Interview participants surprised at acquisition announcement	√	√	×	×
2. Timely communication regarding acquisition	√	√	√	√
3. CCC kept management consulting group together after acquisition	√	√	×	√
4. Management consulting group remained in same physical location	×	√	×	×
5. Integration activities	×	√	×	√
6. Strategic fit	×	√	√	√
7. Organizational fit	×	√	×	×
8. Contractual agreement for professional staff	×	×	×	×
9. Contractual agreement for partners	√	×	√	×

Timely Communication

This first section examines the importance of timely communication to professional employees and partners. Each of the four offices had flexibility in how they announced the acquisition. However, in all four cases, the acquisition was announced by staff meeting where possible. Some of the offices called an "all hands" meeting where everyone in the group met together, while other offices let each department group manager make the announcement, or in some cases it was the project team leader who announced the acquisition to the off-site project team:

> "Yeah, all of a sudden we were told there was a meeting, and it was going to be after work one day. We were told that we needed to be at the meeting if at all possible." (Senior Consultant, Edgewood Office, January 29, 2008)

> "The info she received was all filtered down from her project manager." (Interviewer Direct Observation, Fanfare Office, April 23, 2008)

> "There's always a meeting…. there has been maybe one exception. Generally it is done with the management team of the acquired company. Um, if they are still there of course, so in the case of ACS, at that time _______ was there. He left later. We try to send the good messages to make them feel welcome in [CCC] and see that we will respect important things. It is done very rapidly…. They [employees] want to know." (CCC VP, Quantum Office, May 5, 2008)

> "With regards to how CCC lets staff know that their firm is being acquired, it is highly confidential until the deal is done. However, since they are a public company, once the deal is done, they have to let the market place know. Typically the day of or perhaps late in the afternoon the day before the public announcement, CCC would meet with the staff or sometimes it is the owners of the company meeting with their staff, and sometimes it's the owners of the company with some senior CCC people meeting with their staff. It all depends from deal to deal. The most common situation would be the senior staff of the company being acquired meeting with their people and tell them what is going on. And then that meeting would have been immediately followed by another meeting with senior staff from Canada Consulting. This allows the staff of the newly acquired firm the ability to start asking questions and CCC can start getting the basics out on the table as to what is going to be happening." (CCC Senior VP, Edgewood Office, February 14, 2008)

In two of the cases (Edgewood & Fanfare) the actual announcement appeared to be a surprise to the professional staff, even partners. At Edgewood, the year previous (2003) had been very difficult financially and the company had struggled to ensure that there was enough work for all employees. Management had even recently told professional staff that unless additional project work was finalized, alternatives such as staff layoffs or finding a buyer might be considered. However, in the six months prior to the acquisition announcement, the economy had turned around and work was coming in again and so many employees felt that things were improving. As a result, when the acquisition was announced in 2004, the staff was very surprised at the news:

> "So there was a meeting called and it was made very clear that you needed to attend this one. So it was announced and it was kind of a penny drops on the table kind of announcement." (Senior Consultant, Edgewood Office, March 10, 2008)

For the Fanfare office, the acquisition announcement also came as a surprise to many professional employees, particularly with the announcement of CCC as the acquirer. As CCC is a Canadian owned company and their goal behind the acquisition was to increase their presence in the United States, many of the existing Fanfare staff had never heard of CCC and were very surprised that it would even be allowed to have a Canadian owned company acquire a firm that consisted primarily of Federal Government clients and some top secret work. As it turned out, some of their concerns were valid and Fanfare did not merge entirely with CCC. One group instead became a separately owned subsidiary with some connections to CCC, but with their own President, and some separate operating systems:

> "[We] found out by a same press release … when it hit the web on such and such a website on x afternoon." (VP, Fanfare Office, April 23, 2008)

> "We had no idea who [CCC] was initially. It was like, who? I think, you know, the first few days after the announcement we were trying to figure out what this company was because we didn't know what it meant. So…" (Senior Consultant, Fanfare Office, April 23, 2008)

> "I think there had been rumours, whether they were surprised or not I don't know. If you'd been with [Fanfare] for awhile, maybe you thought they'd never be bought. I mean, I came to them because it was a large company, it was based here [in Virginia], it was stable, a lot of the people who worked here had been here for 15 to 20 years at that point." (Director, Fanfare Group, April 23, 2008)

As mentioned above, close to 10% of the professional staff that left Fanfare (and were included in these retention figures) did not leave voluntarily, but were transferred to another firm due to the US Federal Government work they were involved in and the high level of secrecy assigned to it. As CCC has its head offices in Canada, it was deemed a "foreign entity" and there were concerns about the security of some of this highly classified government work. If the retention figures are adjusted to remove the employees moved over to the other firm, then the retention figures for Fanfare staff were closer to 90%:

> "We had a situation where we had some defense and more secure work that actually was sold to a different company because it wasn't allowed to be foreign owned. So there's a part of our business… that was sold off to ______. So not only was there a bit of trauma at being bought by [CCC], but a good chunk of our peers were sold. Part of our support arm was automatically gone. And what does [CCC] know about the U.S. Federal Government?" (Director, Fanfare Office, April 23, 2008)

For the Middleton and Quantum offices, the acquisition announcement did not come as a surprise to many of the professional staff and partners because most of them were aware that since 2000 CCC had had a 49% ownership stake in ACS with an agreement to purchase the rest in 5 years. This should have put the acquisition date closer to the end of 2005. However, the acquisition ended up being moved ahead one year to the end of 2004. This change in plans was because the marketplace was rife with rumours of the anticipated purchase deal and there was some fear on behalf of CCC that the uncertainty of the upcoming purchase in 2005 would cause staff and clients of both ACS and CCC to move to other firms. Therefore, in the Middleton office the acquisition was announced in November of 2004 and was completed by December of 2004. In the Quantum office the acquisition was also announced in November of 2004, but the acquisition did not take place until February 2005.

> "The head of [CCC] proposed to buy [ACS] and for [CCC] it was interesting to work with [ACS] because [CCC] has been focusing mainly on the development sector as well as the technology sector. [CCC] does not have many people in the consulting sector. So that is why it was a good marriage. [CCC] and [ACS] discussed [the merger] for about 5 or 6 years and then started the merger." (VP, Management Consulting, Quantum Office, May 5, 2008)

> "There were two incentives to complete the purchase earlier. The first [incentive] was from the [ACS] point of view. ________, who was a major customer of [ACS] at the time… had been purchased by Rogers. And, there was a clear indication that Rogers would stop a lot of the consulting work and move that work [internally] within their offices in Toronto. So there was a risk of revenue reduction, important revenue reduction, and therefore an implication on the value of the remaining 51%. So, that was the incentive of [ACS] to move quickly [to complete the sale with CCC earlier since their purchase price was based on their current revenues]. On the [CCC] side, [CCC] had not been able over the years to build a group of senior IT consultants here in Montreal….. So ______ saw in his crystal ball a lot of major projects coming on where he needed those people….When [CCC] needed some senior consultants, they would get them from [ACS]… But _____ wanted these people under the [CCC] label. So both had motivation to sell

> and buy so they moved ahead a year earlier." (Director, Management Consulting, Middleton Office, May 7, 2008)

In all four of the offices, after the acquisition was announced there was a significant amount of effort placed into communication. Interviewee participants from all of the offices talked of how senior managers from CCC, and in some cases the two founding partners of CCC, conducted "road shows" and came and visited the staff at the various offices. During these meetings it was explained how the CCC organization worked, what types of benefits would be offered, that salaries would not be impacted etc. In addition, there was a chance at these meetings for the staff to ask questions:

> "We try to send the good messages to make them feel welcome in [CCC] and that we will respect important things. It is done very rapidly. Generally it is no more than a week after the announcement because it is important. They want to know" (Senior VP, Quantum Office, May 5, 2008).

> "…communication, communication, communication. We try to do the amalgamation just as fast as possible. So the sooner we have them doing things the you know, the [CCC] way, the better off everybody is. And, you know, there'll be a little pain involved for some in terms of [CCC] does this differently than we're used to or in some cases, particularly when you're acquiring a smaller firm, there's a lot more discipline involved in [CCC] than what we're used to. That applies to all big companies. You then need to have more processes, more formal processes" (Senior VP, Edgewood Office, February 14, 2008).

> "It [the communication] was actually quite well done. It wasn't just simple email. We went to meetings, First partners were informed and then we informed our resources and we had the opportunity to ask questions of the president during general meetings. So it was well done I think" (Former Partner, Middleton Office, May 8, 2008).

During the transition process as well, there were numerous emails and communiqués put out by the CCC organization in an effort to keep everyone informed. In the Fanfare office, management personnel were rotated through a course called CCC 101. This was essentially a leadership session to orient the leadership team to CCC's strategy. There were some complaints that although this course was useful, it took too long to get all of the management employees through the course as it took upwards to one year. Some of the Fanfare group felt that this was an indoctrination session and came back saying "okay, we drank the Kool-Aid, we get it now" (Director, Fanfare Office, April 23, 2008). None of the other offices mentioned CCC 101 although it appeared from my conversations to be a course for new managers whether you come in to CCC via acquisition or new management hire.

Partners at all four offices studied spoke of the considerable efforts made towards communication, however, the professional staff in the Edgewood, Fanfare and Middleton offices suggested that overall communication could have been better. What is potentially interesting in this area is that although the quotes below demonstrate the more communication would have been appreciated, the fact that professional staff in these offices did not leave after the acquisition suggests that either professional staff were receiving a sufficient enough amount of communication to allow them to stay at the merged firm or that timely communication, although appreciated, is not a factor in professional staff retention.

> "I think that keeping the communication lines open is really important and there were times when we felt we weren't getting enough information. Although from their perspective [CCC) they most likely thought they were feeding us enough information. I'm sure that they felt that they were answering questions fast enough. But we were hungry for answers and even waiting a couple of weeks for answers felt like a really long time to us. So I think that over communicating is better than under communicating and in the initial few days, weeks, months, that it's even more important to see that" (Director, Fanfare Office, April 23, 2008).

> "I think because we were offsite our communication was a little rockier. You're kind of at the mercy of the manager that they are going to filter down what they should be telling you" (Senior Consultant, Fanfare Office, April 23, 2008).

> "Each office manages the communications of [the acquisition] differently. Certainly the experience that I had in this office was that the [Edgewood] acquisition was consistent with the others in that the communication was not very good…." (Director, Edgewood Office, March 4, 2008).

> "When you have 5,000 people and you have all the, many different [personnel] - you have young people, old people, technical people, management consultants. It's hard to have a message that will fit for everybody so we felt it very soon that it was strange messages, strange communication." (Senior Consultant, Middleton Office, May 7, 2008)

The professional staff and partners at the Quantum office were generally happy with the communication efforts and felt this was a key reason for the success of the acquisition:

> "If I compare the communication [with the success of the acquisition] – the communication usually has something to do with it." (Senior VP, Quantum Office, May 5, 2008)

As mentioned in the social capital retention section, previous research on acquisition communication (Ashford, Lee & Bobko, 1989; Bowditch & Lewis, 1985; Schweiger & De Nisis, 1991; Schweiger & Ivancewich, 1985) has found the timely communication with employees about the merger and anticipated affects of the change is best practice. Keeping the communication lines open assists with managing employee stress, job satisfaction, trust in the organization and organizational commitment. I now examine the impact of strategic fit on the retention of professional employees.

Goodness of Strategic Fit

As discussed in Chapter Two, strategic fit is the extent to which the activities of a single organization or of organizations working in partnership complement each other in such a way as to contribute to competitive advantage. The benefits of good strategic fit include cost reduction due to economies of scale, and the transfer of knowledge and skills. The success of a merger, joint venture, or strategic alliance may be affected by the degree of strategic fit between the organizations involved. Similarly, the strategic fit of one organization with another is often a factor in decisions about acquisitions, mergers, diversification, or divestment (http://dictionary.bnet.com/definition/strategic+fit.html).

> "Again, I think there was some tying together of a strategic fit that says that [CCC] is an IT services firm - primarily the outsourcing of application maintenance and application development. They don't really have a management consulting practice and we get to step in and do that. And it's new and exciting for [CCC] and for [ACS] because we'll get to learn about the larger outsourcing side of things maybe. But we'll still continue to provide the services we provide in the same manner that we provide them and we have the opportunity to do that because we're starting fresh." (Director, Management Consulting, Edgewood Office, February 19, 2008)

During the Fanfare interviews it was mentioned that there was a lot of synergy between CCC and Fanfare. Although CCC did have a small presence in the United States prior to the Fanfare acquisition, CCC did not have presence in the Federal Government sector and they were looking to penetrate that. In addition, Fanfare had expertise and presence in some of the vertical and market areas that CCC had:

> "I think that's to CCC's credit [the synergy between the two firms]. I mean they worked very hard to send us the message that the reasons we were bought were because of the cultural synergies. Not only the business synergies, but the cultural synergies. The work ethics, the management, the management and employee relationship, so, that message was a constant message coming across." (Director, Fanfare Office, April 23, 2008)

A primary component of strategic fit in my research study was the integration activities of the professional staff undertaken by the four offices. As mentioned in Chapter 2, the acquisitions examined as part of this study utilized the combination integration approach at all four offices. This meant that the separate functions and offices of both the acquirer and the target firms were physically consolidated into one office. Managers must consider all possible reactions to a merger that can occur in the organization and try to achieve the best fit possible from the perspective of employees.

Edgewood, Fanfare and Quantum kept the acquired employees together as a management consulting group after the acquisition, while the Middleton consulting group was dispersed all through CCC as part of the integration. Edgewood initially started dispersing the management consulting team throughout the organization, but the CCC Edgewood VP felt that the reasons for the acquisition would be diminished if the Edgewood team were not kept together as a group, and stopped this practice. Three of the firms (Edgewood, Middleton and Quantum) moved to the CCC offices after the acquisition announcement, while the Fanfare office stayed in the same building, but received new outside signage. This was because there was not a CCC office in place in the area prior to the acquisition between CCC and Fanfare. (It is important to note that the CCC Fanfare office did not totally change their name to the CCC moniker, but kept part of their old name in order to reassure clients of their U.S affiliation).

Edgewood, Fanfare and Quantum all kept the acquired management consulting groups mostly intact when they "harmonized[26]" the two firms and this helped significantly with staff integration. Although partners left the firm, most of the professional level staff remained at all three offices.

The Edgewood CCC office did not have a management consulting office prior to the acquisition, although there were a few individuals who had recently been hired by the organization that had consulting experience and were trying to get a management-consulting group established. The Edgewood team was adamant that the Edgewood group be kept together after they moved into the CCC office. They were physically co-located together on the same floor and most of them continued working for the same clients as before the acquisition. However, shortly after the

[26] Harmonization is a term used by CCC to describe the integration process. The term was used because CCC felt that it had positive connotations and would resonate more positively with staff that using the terms 'integration' or 'acquisition'.

acquisition took place, CCC staff from other departments started requesting the Edgewood consultants who were on the "bench"[27] be placed on their IT projects usually to do business analyst[28] work. However, the Senior VP of the CCC office was quite adamant that the management consulting staff not be put on to IT projects just to be another warm body to do the work. "We're going to dilute what we just bought if we let them (the directors from other departments) start cherry picking" (Senior VP, Edgewood Office, February 14, 2008). The feeling was that yes, the management consulting staff could potentially be put onto an IT project to do the front end requirements gathering[29], but if that was allowed these management consultants would more or less disappear into large IT projects lasting one year or more, and CCC would end up losing the value from the acquisition because the strategic management consulting skills they have purchased as part of the acquisition would not be utilized. Not using management consultants on certain types of work impacted the billable hour requirements set by CCC, at least in the Edgewood office. In the information technology group, consultants were expected to be billable 95% of the time. In the management-consulting group, the billable hour requirements were lowered to 75% with the understanding that the nature of management consulting assumes there are lulls in projects and it is not feasible to be 100% billable[30].

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[27] "On the bench" is a management consulting firm used when consultants are not currently completing any billable work.
[28] Business analyst (BA) work is considered to be quite low level work. It is not at all strategic in nature, and a lot of the BA work can be quite long term in nature since it is attached to long term IT projects.
[29] "Front end requirement" gathering is the initial fact finding piece that precedes a large scale IT project.
[30] These billable percentage requirements were provided by the Senior VP of the Edgewood Office. These percentages are similar in nature to my experience as a management consultant.

During the Edgewood interviews, the participants spoke of the continued importance of keeping the group together. My interviews took place in 2008, 3 years after the acquisition had taken place and the group still operated as a separate group although new management consultants had been hired to join them. Participants spoke about how they had recently had a management consulting retreat and the VP of the Edgewood office had spoken at it and continued to endorse the idea of having a management consulting group that was kept separate from the remainder of the IT focused office.

> "The easiest thing to do would have been to take all the resources and disperse them amongst all the existing units. So we could have all become business analysts within IT. But they said, 'we wanted a management consulting company,' and so they kept us together as a team, which was smart. Because that would have made it difficult for us, we could have been lost among 300 people….And even physically co-located it in a physical area, and kept us together as a team" (Senior Consultant, Edgewood Office, March 10, 2008).

> "Our VP, to his credit, said, 'no, no – we're just going to dilute what we just bought if we just kind of let them cherry picking, because you could go into an IT project and do the up front information gathering as a consultant and pick it up. But once you start allowing that, those people would start disappearing into big IT projects that last a year' and he would lose what he bought. [So they lowered the billable time expectation for management consultants] to 70 or 75% of the time. [in IT it is about 95% of the time]. There is an understanding that you can't be 100% billable in management consulting. It is the nature of the work that there are lulls in projects. This has been hard for some of the directors on the IT side to understand. They would say, 'but he's available so I should be able to take him' " (Senior Consultant, Edgewood Office, March 10, 2008).

Within the Quantum group, initially a significant number of professional staff and partners at Quantum did leave [CCC] after the acquisition announcement. Of those who left, most left almost immediately after the announcement. However, after a former Quantum manager was asked to be to become the VP of the Management Consulting group, the exodus of both professional staff and partners ended. Having a former Quantum manager named to lead the management-consulting group was very reassuring for the former Quantum professional staff and many named this as one of the reasons that they stayed with CCC after the acquisition.

> "Clearly his leadership has made the difference. Because when you have somebody like him in front of you telling you "I will stay and I have a plan". This is a very strong message" (Senior VP, Quantum Office, May 5, 2008).

> "At first a lot of [the staff] started to go outside and go to other companies. We lost about 25 people during the first 6 months of the integration. Then, in August, I had meetings with the rest of the group and told them that I had been made the VP of the group and I was staying here and working with [CCC] until the end of my career. This stopped the flow of people going out and quitting" (VP, Management Consulting, Quantum Office, May 5, 2008)

> "I would say generally that this is the key to the success [keeping the management consulting staff together] of the acquisition. What you pay for essentially are the contracts, the clients, the people. There is no more better access than that really. It's not the laptops, or the net worth, or the tables and chairs aren't important, it's the people. So it's clear that from day 1, that in our integration strategy, the main goal is to keep the people…." (Senior VP, Quantum Office, May 5, 2008).

The Fanfare office kept the staff together for the most part after the acquisition. The same employees remained working in the same building, primarily for the same clients that they had before the acquisition.

> "In reality there wasn't a lot of management shakeup. And one of the Senior leaders within [Fanfare], ________, ended up being the head of

> [CCC US]….So there was not a lot of culture shock, at least within our group" (Director, Fanfare Office, April 23, 2008).

> "I think that since things stayed pretty much the same…there weren't any huge drastic changes that I saw anyone really struggle with" (Senior Consultant, Fanfare Office, April 23, 2008).

Only the Middleton office did not keep the staff together after the acquisition. Middleton dispersed the ACS employees into a number of groups depending on their expertise or the project work that was available. This dispersion had a very negative effect on the staff. For example, a VP of the pre-acquisition ACS Middleton office was initially told that he would head the management-consulting group at CCC Middleton. However, when he saw the management consulting staff being dispersed all over the firm, he left within a month. In addition, many of the professional staff in the management-consulting group were moved from department to department during the first year. It gave them the impression that nobody wanted them and had very negative effects on morale. In addition they felt that they did not receive any introduction to the business model of CCC, nor did they participate in any integration activities. What made it even more difficult for the Middleton staff was that initially during the transition it was decided that the Middleton group would be kept together and would form a separate sector or practice unit within the CCC Middleton group. The Middleton staff was told that they would have their own floor in the office and that they would essentially be a separate business. However, once the transition was actually put in place a few months after the acquisition was announced, this did not happen and as noted above the staff was dispersed into a number of different practice groups. As a result there ended up being a mass exodus of partners who left the CCC Middleton firm.

> "Initially we were told that we would be our own business…[CCC] agreed to this to get the deal signed, but once we came on in January it was obvious that this wasn't going to happen. And people started to leave. There was a group of people that had been identified to be the lead VPs and sub VPs of the group and when they saw in early 2005 that this was not going to happen, they kind of left the boat within 3 months" (Director, Management Consultant, Middleton Group, May 7, 2008).
>
> "All of the senior partners left. They either created their own company, or they joined another group, or they are freelancing, or they're doing like me, retiring. That's what happened" (Senior VP, Middleton Group, May 8, 2008).

When asked why CCC professional staff did not follow the partners who left, many of the participants said that they felt that they needed to give the acquisition a try first before making a decision to leave. Some also stated that every time they finished a project they thought about potentially leaving, but that ultimately they continued to stay because they enjoyed working with their clients and overall they didn't feel that CCC was a bad company to work for.

> "Most people made the switch. Because we were in some ways kind of excited about it. It was okay, we're going to form…the management consulting services for CCC…. We would be reporting to the President and that would be good…. But when it started to disintegrate, then senior people started to leave. Some senior people left at the very beginning. And I'd say in the first year, the first two years maybe, a lot of senior people left. I believe that a lot of people said, and I felt the same way, I can't leave now because I would leave something I don't even know. So, maybe I'm not happy about the acquisition but I have to stay and see. If I don't like it I can leave….So I went from mandate to mandate and every time the mandate finishes I keep asking the question – should I stay or should I go? So far I have continued to stay" (Senior Consultant, Middleton Office, May 7, 2008).

For the Fanfare group, due to the nature of the U.S. Federal Government work that they were responsible for, they were kept together as a group as well. They did not move locations either; their office building just changed its name to the new company name. In addition, due to the security requirements of the work that they do, they were given a separate name from the acquiring company. This was due in part to the fact that the head office of the firm is Canadian owned and there were some concerns, from staff and clients alike, about having a foreign owned company to have potential access to secret documents and information. It was also felt that CCC worked very hard to send the message that the reason the Fanfare firm was acquired was because of the cultural synergies that the firm brought to CCC. Not only did the two firms have similar business synergies, but also similar work ethic, good management and employee relationships, and comparable management teams. It was also appreciated by Fanfare that CCC was very adept at realizing that the business model of Fanfare was completely different from CCC's business model and that it was necessary for this to remain.

Fanfare and Quantum participants felt there were adequate integration activities although even at these offices some participants spoke about how they missed their former offices. Some of the comments that came out of these offices included:

> "The first decision from _______ was to keep the team together and not disperse them under other managers. And he knew that I could be a good leader and he asked me to meet everyone and to explain to them that all the company would be respectful to them. And he himself came and met each senior person personally. I must say that we were very well treated on every thing. Those who left, it was not because they were not well

treated, they decided that something else was better. (VP, Management Consulting, Quantum Office, May 5, 2008).

Participants I spoke to at the Edgewood and Middleton offices did not feel that integration activities were sufficient. Participants at both offices wanted additional opportunities to meet their new colleagues, increased communication, and the opportunity for their group to work together as a unit.

> “I think they did the best they could. But they did it like a big company. They didn’t have the proper skills to make people feel very welcome. They tried, but it was very – ‘here’s the salary, here’s how you convert your salary to our bracket’. That was very well explained, but to me it was a bit stressful at the beginning because I didn’t have a mandate [project to be assigned to]” (Senior Consultant, Middleton Office, May 7, 2008).

> “He said that some staff seemed to pine for the “good old days”, but he tells them that Fanfare is no longer around, so they can’t go back to it. They can leave and go somewhere else, but not back to Fanfare” (Direct Observations, Fanfare Office, April 23, 2008).

> “At [ACS], the business model was very different. I think we were charging a lot more per hour because we were selling strategy, selling seniors (highly experienced consultants) and the mandate could be 3 months or 6 months, but at [CCC] a consultant could go on a project for 5 years and no one sees you for 5 years…. By doing so, if your hourly rate is less, then you can’t afford to have too many people on the bench (not working on a project) unless they have something else coming, like outsourcing contracts or something like that. [CCC] stressed having a mandate so much that people were stressed by it. It used to be that not having mandate meant that you had time to clean up, do an internal project, research a new approach, help others…But now it was like “jeez, there’s something wrong with you if you don’t have a mandate. [People] would almost take anything just so if asked you could say, ‘yes, I have a mandate, now don’t worry about it’!” (Senior Consultant, Middleton Office, May 7, 2008).

In the next section I will examine the importance of organizational fit to the retention of human capital.

Goodness of Organizational Fit

Organizational fit refers to the management styles, culture and organizational systems in a firm (Greenwood, Hinings & Brown, 1994). As mentioned previously in Chapter 2, having a good organizational fit is a very important component of a successful merger or acquisition. This importance of organizational fit was not lost on CCC. One of the VP's interviewed described the importance of organizational fit in this way:

> "We need to be comfortable beforehand that they will fit. As soon as the deal is done, we [organize] some events to bring them up to speed on [CCC]. Often, this [the acquisition announcement] will come right out of thin air as far as a lot of the employees are concerned. They had no idea it was coming and often the employees being acquired won't know much about [CCC] at all. So, we try to get them up to speed as fast as we can. Just to make sure that inaccurate rumours aren't spreading around. So, we'll do presentations, give them lots of opportunity for Q&A. We'll appoint mentors so if you've got an HR issue, here's who you go to, if you have a professional issue, here's who you go to, here's who your member manager is. Here's someone to go to if you can't figure out where else to get the information. On the mentor side, the mentors will be asked by [CCC] to reach out regardless of whether they get the call [from the new staff member] or not" (Senior VP, Edgewood Office, February 14, 2008).

In the four cases described in this study, organizational fit between the merged organizations had a strong impact on the perceived success of the acquisition and impacted the success of social capital transfer. Of all of the variables, the goodness of organizational fit between the acquiring and acquired firm was the most talked about observation of the participants. Of the four cases studied, Quantum and Fanfare had the easiest transition in blending the two firms, particularly in the areas of management style and culture.

> "It [the culture] stayed the same and I think that is one thing that CCC prides itself on too. They usually look for acquisitions that not only have the same balance sheet and have a good financial picture and the right client base that we want to be in, but is it a good match culturally. And I think that CCC and Fanfare were a good match even though CCC was from Canada. The cultures were very similar and I think again because there wasn't this big influx of CCC people into our space, it didn't feel like I was being acquired. It was just my benefits changed and the upper management changed, but otherwise it didn't. It was just a different kind of acquisition" (Senior Consultant, Fanfare Office, April 24, 2008).

Edgewood experienced some difficulty in the blending of cultures. Middleton had the least success with organizational fit, particularly from a management style and culture perspective.

> "The [ACS] way was let's balance life and work and make good money. The [CCC] way is you have to work 27 hours a day, we don't care" (Senior VP, Middleton Office, May 8, 2008).

The differences between these different perspectives will be discussed throughout this next section. The first important element of goodness of organizational fit is the extent of compatibility between the *management styles* of the two firms. Management styles are unique to organizations and can differ considerably across firms. For example, some management groups may have very different risk-taking propensities, while another group's tolerance for change might be much greater than another. Decision-making approaches at two firms can also differ. For example, some top management teams rely almost exclusively on common sense, gut feelings and 'rules of thumb', while others emphasize formalized strategic planning systems, market research, and various management science techniques (Datta, 1991). Differences may exist in the management groups' beliefs on the desired level of flexibility (Burns & Stalker, 1961). For example, one group might stress greater operating control, highly structured channels of communication, and adherence to well-defined job descriptions than the other (Datta, 1991).

As CCC is a very large organization and the acquired firms in question in this study were significantly smaller, in all four acquisitions there were differences in the management styles between CCC and the other firms. CCC was seen to be a very large, formal, inflexible and somewhat cold organization.

Edgewood and Quantum in particular spoke of the "family" atmosphere and more relaxed management style that was in place pre-acquisition. There was talk of social events, and parties and even feeling like the senior partners were "mom and dad". There was not the same sense of family post acquisition and some participants felt a significant sense of loss over that. Even though they understood in most cases why the acquisition happened, there was a sense that perhaps their founding partners had sold them out.

> "We were an independent and we had our own culture, so there was a feeling that we had been sold out. They gave us huge dividends on our shares so everyone was happy about that, but the actual sale of [ACS] felt like someone taking your family away. That's what it felt like when it happened. So no one was happy about it, nobody, except for [the founding partner] because he made a lot of money out of it. I mean we understood I think, after the emotions went away, you understood that he did what he felt he had to do in order to save us. Because his feeling was that if it happened again there was no way we could stay afloat" (Director, Edgewood Office, March 18, 2008).

> "People don't like a big company because they think they are too much administration, no human contact is the first reason. The other reason is someone don't want to be a number. They want to be somebody. And in a big company it was a number because there are many people" (Director, Quantum Office, May 5, 2008).

> "CCC kept the groups intact (at Edgewood, Quantum, and Fanfare) so for staff and clients there really wasn't a lot of change. This helped with the transition, although it takes them a long time to stop thinking of themselves as ex-ACCers. Sometimes a lot of talk about the good old days – perhaps too much" (Interviewer direct observation, May 6, 2008).

The second important component of organizational fit is *culture*. Culture is made up of the values, beliefs, underlying assumptions, attitudes, and behaviors shared by a group of people. It is the behavior that results when a group arrives at a set of generally unspoken and unwritten rules for working together (Nahavandi and Malekzadeh, 1988). Similar to management styles, culture tends to be unique to an organization and affects practically all aspects of organizational life from the way in which people interact with one another, perform their work and dress, to the types of decisions made within a firm, the organizational policies and procedures and strategy considerations (Buono, Bowditch & Lewis, 1985: 483). When two organizations merge together, there are different ways that the organizations can merge cultures. Sometimes the acquiring organization imposes their culture on the incoming organization, while other times the acquiring organization integrates aspects of the incoming organization so that the resulting culture is a blend of the old and the new. The lack of a good cultural fit can result in employee turnover, particularly employees from the acquired organization (Nahavandi and Malekzadeh, 1988).

> "Yes, the culture is very different because CGI is new, big company in Quebec. Okay. About 5 years ago they are not 1000, they are 500. It is not the same thing. And, there are some problems. It is not the people mix very well. But it is not an opportunity for me. Now I'm 54 and I don't want my family in the company. Okay. I love meeting people and working together. We have lunch, we work together, but after I go home. There are some problems because the young people need that kind of thing" (Director, Quantum Office, May 5, 2008).

> "He (an ex-partner who left the Middleton office to start his own firm) noticed a lot of culture change. Big firm versus little, the formalities i.e. had to wear a tie, the rates, the CCC rates were much lower, even in the CV's they had to fill out, no drop down box to specify the type of work that they did (Direct Observations, May 8, 2008).

> "The culture in terms of 3 years since the acquisition, totally different culture from before. Remnants of the past, but not the same because the person at the helm hasn't maintained or cultivated that. Either because it is not their style or they just don't recognize that. So as a result the people from Edgewood view this as more a job, than a family and a culture I want to be part of" (Senior Consultant, Edgewood Office, March 10, 2008).

The third important criteria of organizational fit are the *organizational systems* in firms. In the case of a merger or acquisition there needs to be a blending of systems, particularly in relation to accounting software, payroll, knowledge management etc. In all four cases, there were some similar systems being used by the two firms so those didn't change, but in systems that were different, the acquired offices were switched over to CCC's accounting software, payroll, insurance provider etc. Although this criterion is considered important in the literature on integration, organizational systems was not raised as a significant issue in any of the offices.

> "Systems-not much changed" (Senior Consultant, Fanfare Office, April 24, 2008)

> "They have a very structured process where there are a whole bunch of human resources forms to fill in. They give you an introduction to the knowledge management system, and the time sheet system and email and all those good things. So, from an HR perspective, tick the box" (Senior Consultant, Edgewood Office, February 19, 2008).

The size of CCC versus the acquiring firm was an issue of organizational fit that was raised at all four offices. The Fanfare office was the largest of all the acquired offices with 425 people. Middleton was next with 125 staff. Quantum had 100 employees and Edgewood had 30 employees. Although the office sizes varied, CCC in total has approximately 35,000 people worldwide. Participants from all offices spoke of how big CCC was compared to the firms they previously worked for. All spoke of how CCC is a much more formal workplace. At their previous office they would have felt comfortable walking into their President's office for a discussion. However, at CCC, that would never happen. There was also a dress code and employees were expected to dress in business attire rather than business casual. Some employees found this shift in thinking quite difficult to get used to.

> "This is just a funny example, but at [ACS] no one wore a tie. It was not in the culture. And one of the first things that happened when we joined [CCC] was that we received a memo from the President saying we have dress code! And some of us didn't want that. And we were just waiting for the President to tell us personally, "you have to wear a tie" (Senior Consultant, Middleton Office, May 8, 2008).

> "And I'm not sure if the size is just not conducive to building that [culture] but at the same time I recognize that few people have had the opportunity to work in that type of environment that I had [small office like Edgewood]. And even though it was only 3, 4 years, it's given me a sense of what works in terms of developing a team. I really saw some positive things. The mentoring I saw happen. It was very hard work, I worked lots

of hours and the pay wasn't good. And with CCC I have better pay and better perks, but it's a pay cheque now versus [my commitment to the firm]. Now, I have obligations to clients, but my sense of ownership or belonging to CCC is much more translucent than Edgewood. I'd miss some of the people here if I left, but I don't have the same sense of buying into the company like I had" (Senior Consultant, Edgewood Office, March 10, 2008).

In addition, these smaller firms (with the exception of Fanfare) all had a reputation in the market place for being comprised of primarily senior consultants, independent from the large firms and independent people by nature. CCC, on the other hand, had a reputation for being a very operational firm composed of technical and tactical individuals. When the Edgewood, Middleton and Quantum staff joined CCC, they felt overwhelmed with rules, regulations, laws and obligations. This lack of freedom and flexibility was a major source of culture shock for many of the staff.

> "[ACS] was known in the market for being a very senior consulting group who were independent from the large firms and so on and were in fact independent people by nature. And [CCC] had a reputation of being a very operational firm -technical, tactical- and so these were not the same two worlds. Not at all, not the same culture and when people joined and came physically here, we were swamped with rules and regulations and laws and obligations and what to do, what not to do, how to breathe, where to go. Most of the people [in ACS], most of the intermediates to seniors were there because of the freedom that they had, so major, major culture shock (Director, Management Consulting, Middleton Office, May 7, 2008).

> "Oh boy, much more process and procedure. I mean, it's ISO 9000 stuff, having processes and approvals and forms, as well as different types of meanings and checks. A lot more rigour around the processes that we used to do day to day. But again that has to do with how we needed to operate to be competitive in the IT industry in the 2000s. People will say that CCC brought this, and yes that's true, but CCC brought it because it was what we needed to do to be competitive. If we were still Fanfare, we would have had to bring in a lot of the same things" (VP, Fanfare Office, April 23, 2008).

Even with these differences, it was mentioned in the Fanfare interviews that employees felt there was no attempt by CCC to eliminate the Fanfare culture or to force them to convert to the CCC culture. In fact most participants felt that CCC specifically focused on keeping the best aspects of their organization in place. The Fanfare group felt that by keeping their management team in place and keeping many things the same, their skills and qualifications were recognized and appreciated.

> "I really feel that [CCC] tried to take a look into what [Fanfare] was doing and tried to incorporate what made sense and didn't adopt what didn't make sense: (Director, Fanfare Office, April 23, 2008).

It is apparent that there were similarities and differences in the ways each firm transferred their human capital after the acquisition. My primary goal in this section was to explore factors that retained professional team members at all four offices even when partners left. Each of the themes of timely communication, goodness of strategic fit and the goodness of organizational fit were explored using the literature as well as the participant interviews. From this data it is apparent that significant communication, keeping staff together after the acquisition, putting a senior manager from the acquired firm in charge of the management consulting group and similar cultures were probably the most significant factors that kept staff at the acquiring firm after the acquisition has taken place. Next I discuss the retention of partners, placing particular emphasis on the fact that at two of the examined cases, significant numbers of partners left the firm. This attrition appeared to have no impact on the retention of staff at these offices, at least in the short term. What made partners stay at two of the firms and leave at the other two firms and why did this not impact the retention of professional staff? The themes developed in the area of partner retention once again include timely communication (keeping them apprised of the situation), the importance of contracts, and the importance of leadership roles of acquired partners. Each of these themes is discussed in detail below.

Human Capital Retention of Partners

Two of the firms (Fanfare and Quantum) had successful rates of partner retention. Fanfare had 80% retention of partners both one year and three years after the acquisition. Quantum's retention rate of partners was slightly lower at 73%; however, this percentage was also maintained after three years. In contrast, two firms (Edgewood and Middleton) had less successful rates of professional staff and management/partner retention. In the Edgewood group, 100% of the four partners left after one year, while 80% of the 25 at Middleton left after one year and 82% of the Middleton partners had left after three years. The question in this section is what made partners leave after the acquisition announced? In addition, why did partners leave at two of the offices (Edgewood and Middleton), even when professional staff and clients at these offices remained?

Similar to the importance of communication for both clients and professional staff, ample and timely communication was also important for the retention of partners. Partners also wanted to feel that they were adequately informed with respect to the various aspects of the acquisition. Although communication was good at all four firms, Fanfare and Quantum appeared to do a better job of ensuring that their partners had the communication they needed to keep their staff up to date and apprised of the situation. Edgewood and Middleton partners did not feel that they were communicated with early enough and this led to friction and in some cases caused partners to leave the firms.

In the four cases examined in this study, CCC did not have a consistent format in place for retaining partners and in each case there were different ways of dealing with the level group. The Edgewood and Middleton offices did have a one year stay-back clause for partners The Fanfare and Quantum offices did not have a stay-back clause in place. However, having a stay-back clause in place did not necessarily ensure a better rate of management/partner retention. As mentioned previously, at the Edgewood/Middleton offices, (my examples of unsuccessful partner retention), the senior partners signed a one year contract to stay on with CCC before they could leave without repercussion. However, these offices had the highest loss of partners and a number of partners from both the Edgewood and Middleton offices managed to leave prior to the end of the one-year by staying with CCC for six months and then taking a six-month leave of absence, after which they would resign from CCC. Some of these management level staff or partners retired with the payouts they received from the acquisition, while others started their own small firms.

> “People [partners] would say, okay I’ll take a 6 month leave of absence and then …. Technically everybody went around that. The more senior

> they were, the more money they got out of the deal" (Senior VP, Middleton Office, May 8, 2008).

> "Of course the main partners of [ACS] had something more formal. They had to be there a year; [with the other lower level] partners it was more of a gentleman's agreement. During that year I think most of us really tried to get into [CCC] and to be involved and to switch our heart from [ACS] to [CCC]. But I think it wasn't really easy. So, a couple of former partners and colleagues (myself included) decided to leave after a year and we founded [123 Consulting Services] Which offers more or less the same type of services that ACS was offering at that time. Management consulting, project management and IT consulting" (Former Middleton Partner, Middleton Office, May 8, 2008).

> "The other thing that was happening was that some clients made offers to ex [ACS] or they said, go freelance and we'll rehire you" (Senior VP, Middleton Office, May 8, 2009).

At Edgewood, all four of the senior partners had contractual agreements of one year. However, one year after the acquisition when the partners had completed their contractual requirements, they left and in some cases took existing clients with them. Two of the partners actually left prior to the end of their contractual agreement by remaining with the firm for six months and then taking a six month leave of absence. After the completion of the leave of absence, they formally left CCC and started a new firm of their own. The professional staff that transferred to CCC as part of the acquisition was primarily junior consultants with limited project management experience or limited responsibilities for bringing in client work.

> "…the CEO, the partner and his wife, who were very instrumental in bringing the business in because of their personalities, their connections. They were very dynamic. I think there was concern over whether they were going to stay. I think that maybe they didn't want to rock the boat because they wanted to ensure that they helped…the CEO pretty much

> treated us like his children. He ensured that everyone transitioned well. They stayed on for maybe six months, but they never really came out and said whether they were going to stay or not. And I think that a lot of people suspected, since they've already been here before [working at a large professional services firm], why would they…. They owned a successful company so why would they come back to [being employees]. … "(Senior Consultant, Edgewood Office, February 28, 2008).

> "…3 people right from the get go did not come on [Edgewood] people. And then fairly quickly after the acquisition, once we actually became [CCC]'ers, within 6 months, the two partners from Edgewood were gone. And another one of the other senior people left within [the first] 6 months. And within a year, another senior person from Edgewood left [CCC]" (Senior Consultant, Edgewood Office, March 10, 2008).

At Middleton, which had a partner retention rate of 20%, what surfaced from the interviews is that the professional staff and partners understood the rationale for the acquisition, but did not agree with the acquisition. The Middleton office consisted of a large proportion of experienced professionals, many of who were senior managers at large corporations before moving over to ACS. These people came to ACS to work as management consultants and do high level, strategic consulting work. At ACS they were given a lot of freedom and flexibility in how to do their work. And for the most part, these senior management consultants were very happy with their working arrangement. So finding out that CCC had acquired ACS and that they would once again be working for a large firm was a difficult concept for many of them to grasp. As a result, many of the professional staff and the partners left CCC and either started their own consulting firms or found employment with other small consulting firms.

Neither Fanfare nor Quantum had the exodus of senior partners that Edgewood and Middleton did. In both of these cases the senior people remained with the firm and in both cases a senior partner from the acquired firm was asked to head up the management-consulting group. In fact, at Fanfare, a Vice President from the Fanfare side was promoted to lead the US offices while the person named to be President of the CCC Fanfare group was an individual who had once worked at Fanfare before moving over to CCC a few years earlier. Having former Fanfare management placed in positions of leadership reassured Fanfare staff that CCC had good intentions regarding their future and that their firm was considered to be a valuable asset to CCC.

> "One of the senior leadership within [Fanfare], _________, ended up being the head of [CCC] US…. So there was not a lot of culture shock, at least within the federal group, because we kept pretty much our management team in place" (Director, Fanfare Office, April 23, 2008).

In all four of the cases, the general consensus was that partners that left after the acquisition announcement did so because they were not interested in working for a large professional services firm (Note: I only interviewed one former partner who had left CCC after the acquisition and this was his opinion, as well as what I heard from the other interview participants about partners that had left). All of the ACS partners who left (at all four offices) had previously worked for large firms such as Price Waterhouse, Coopers and Lybrand and Deloitte and Touche, and there was a pervading mentality of "been there, done that". Other staff in the office did not seem at all surprised by this attitude and were very supportive of the reasons that many senior partners decided against moving to the new firm.

> "…I think that some people depending on where they [were]in their life and their age, and also how open they [were] to change, were not happy about it [the acquisition]. Because we were going from something really small to something really big. And some people had already been there [at a large firm] in their lives already... (Senior Consultant, Edgewood office, February 28, 2008)

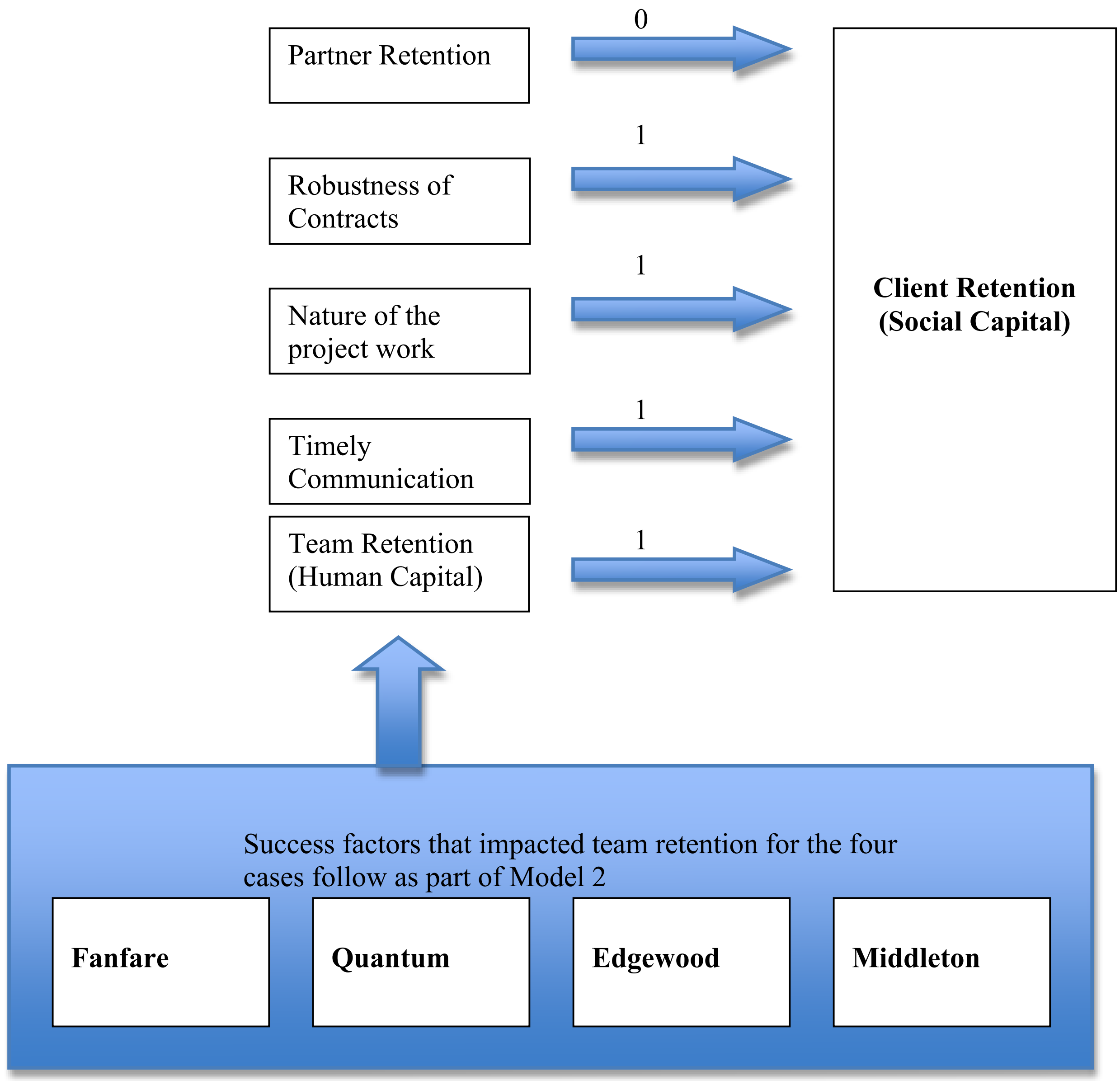
> "It largely depends on how senior they are. I think the more senior they are, the more confidence they have that they can hold their own in the marketplace and …particularly if they've been with a small firm for a long time, sometimes the less appealing it is to work for a larger firm" (VP, Edgewood office, February 14, 2008).

The fact that partners left in significant numbers at two of the four offices studied, yet this did not impact the retention of clients and professional staff, could lead to the erroneous conclusion that it is not important to retain partners and that professional service firms should not worry if partners leave after an acquisition. However, although partner retention does not appear to have significant impact in the short term, there was some indication in my interviews that the remaining professional staff found it very stressful to have partners leaving the firm after an acquisition. Participants spoke of how this impacted the morale of the remaining team, particularly in the smaller firms where the teams were described as family. In these firms, three years after the acquisition, some of the professional staff members were still longing for the pre-acquisition days and in some cases were considering relocating to a new firm in the hopes of finding that smaller, family-based culture once more. The impact of partners leaving on the remaining professional staff should be an area of future research.

Summary

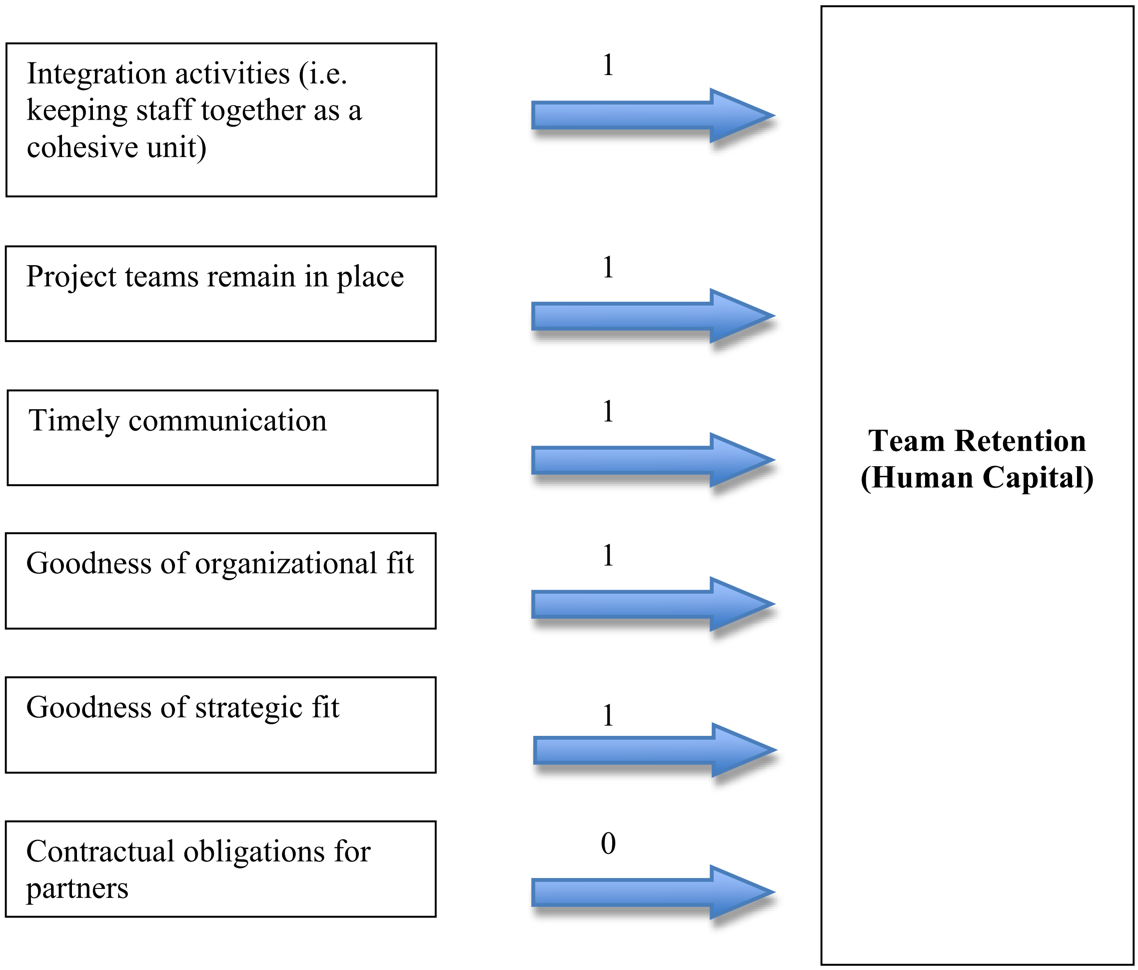
After comparing and contrasting the four firms, it is apparent that from a social and human capital retention perspective, the integration of clients and professional staff and partners utilizing the various organizational factors discussed above have a significant amount of impact on whether an acquisition is successful or unsuccessful. To retain social capital all four offices focused on timely communication, robust contracts, and the nature of the project work. Partner retention ultimately did not impact client retention, but team retention was very significant to the retention of social capital after an acquisition. Practices that impacted successful team retention at all four offices included: timely communication, integration activities such as keeping staff together as a cohesive unit and having an adequate induction process, goodness of strategic fit and goodness of organizational fit. Practices that impacted the successful retention of partners included: emphasis on timely communication and keeping them apprised of all major aspects of the acquisition, as well as the importance of leadership roles for some partners from the acquired office. Surprisingly, having a contract agreement with the partner to get them to stay for a certain period of time did not impact whether partners remained with the firm or not. In fact, the firms that had partnership contractual agreements in my study fared less well in retention than the firms without partnership agreements. A model of the framework of organizational factors that impact successful social capital transfer is illustrated below in Model 1. Model 2 follows immediately after Model 1 and illustrates the factors engaged by each office to encourage successful human capital transfer.

Model 1: Factors that Impact Successful Social Capital Transfer



Legend:
0: Factor does not impact social capital (client retention)
1: Factor does impact social capital (client retention)

MODEL 2: FACTORS THAT IMPACT SUCCESSFUL HUMAN CAPITAL TRANSFER



Legend:
0: Factor does not impact team retention (human capital)
1: Factor does impact team retention (human capital)

This chapter highlighted the main findings of my research resulting from the comparison and analysis of the four cases, and provided a framework (Model 1 & 2) comprised of organizational factors that play a role in the successful or unsuccessful transfer of social and human capital. To summarize, my research study found that of the four firms studied, all of the firms were successful in retaining clients and professional staff. Two firms (Fanfare and Quantum) were successful in retaining partners while two firms (Edgewood and Middleton) were unsuccessful. In the final chapter I link the main findings of my research to the broader understandings of the theoretical framework on successful social and human capital transfer.

Chapter 5

Conclusions

Introduction

The intent of this thesis was to advance theory in the areas of mergers and acquisitions, professional service firms, and social capital through the development of a theoretical model identifying those factors that influence human capital and social capital transfer during professional service firm mergers and acquisitions. A key motivator was the realization that despite abundant interest in mergers and acquisitions, there has been little theoretical or empirical research directed at understanding the causes of ensuring their success. As noted earlier in Chapter Two, although mergers and acquisitions are a frequent occurrence in today's contemporary society, particularly in the professional service firm sector, it has been estimated that close to 80% of acquisitions do not meet their premerger financial goals and that almost 50% are failures (Nahavandi & Malekzadeh, 1993). This implies that acquisitions are not well understood in practice and that understanding of the determinants of successful acquisitions is incomplete. In this thesis, I have undertaken a qualitative, case-based approach comparing the acquisition experience of four independent professional service firm offices acquired by one international professional service firm. PSFs were chosen as the research setting because this sector has experienced considerable acquisition activity and social capital is a significant aspect of a professional service firm's success.

This chapter highlights the main findings of my research and links these findings to the broader understandings of a theoretical framework that identifies those organizational factors that contribute to the successful transfer and retention of clients and professional staff, as well as those factors that increase the risk of clients and professional staff exiting the firm. The chapter is divided into two parts. The first section explains the theoretical contribution of my study and discusses why my results were different than other studies examining similar issues. I do this by summarizing the findings of the previous chapters, revisiting the research questions and exploring the boundary conditions of this study. Recall that my central research issue, "how should social capital best be transferred when professional service firms are acquired?" was respecified into two important subsidiary questions; "Is it possible to acquire and retain social capital?" and "How can organizations best manage the transition or transfer of clients and professional staff from one firm to another in order to retain the acquired social capital"? Each of these questions is addressed in turn. In addition, I generalize my findings and relate them to the broader notion of social capital transfer as well as discuss my contribution to the merger and acquisition, social capital, and management of professional services literature. In the second section I discuss the limitations of my study and extrapolate my research findings to identify, and discuss, opportunities for future research that have been generated from this research.

Is it Possible to Acquire and Retain Social Capital?

The answer to my first research question, is it possible to acquire and retain social capital, is yes. Following general convention of other researchers (i.e. Broschak, 2004, Somaya et al, 2008), I speculated early on in this thesis that my research results would see the loss of clients following partner exit from the firm after the acquisition. However, as was seen from my results, this was not the case. My results found that all four firms were successful in retaining social capital (clients) and achieved a minimum retention rate of 90% of their clients after the acquisitions. Edgewood, Fanfare and Middleton all retained 90% of their clients while Quantum retained 95%.

In addition to the success that the firms achieved in retaining social capital; all four firms were successful in retaining professional staff. All four offices retained between 73% and 88% of their professional level staff one year after the acquisition and between 70% and 80% of their professional staff three years after the acquisition. However, in retaining partners, only two of the firms (Fanfare and Quantum) were considered successful because Fanfare retained 75% of their professional staff and partners, while Quantum retained 70%. Edgewood and Middleton were considered unsuccessful in partner retention according to my criteria because Edgewood retained 0% of their partners one year after the acquisition and Middleton retained only 20% of their partners one year after the acquisition and 18% after three years.

The retention of clients even with the loss of partners contradicts earlier research (Broschak, 2004, Somaya et al, 2008) that found if senior management and/or partners leave a firm after an acquisition, clients leave. However, it is not the intent of this study to suggest that previous research is inaccurate in its findings. Rather, the scope of this study specifically focuses on one particular component of professional service firms – management-consulting firms. What this study ultimately highlights is that the way that management consultants develop relationships with their clients is different from other professionals, both within the professional service firm industry and in the wider marketplace as a whole. Chapter Two details the way in which management consulting firms procure work. Recall that when an advertising firm wins a contract, the same team that developed the relationship with the client, prepared the proposal, delivered the client presentation and won the work, ultimately completes the assignment. This work is usually completed off site by the project team over a period of weeks or months, with regular meetings only as needed with the client, and culminates in a final presentation of the ad campaign. The partner from the advertising firm remains actively involved throughout the project and in many cases is the project lead, therefore, the relationship that they have with the client is key. In management consulting firms, however, most of the project work is completed on site at the client by a work team comprised of a project manager and professional staff from the management consulting firm, alongside project team members for the client side. This team works very closely together for the period of the assignment, which often ranges between six weeks to multiple years. The consulting partner that developed the initial relationship with the client and led the successful bid usually transfers the majority of the assignment to the project team. The partner is only involved in the assignment at a high level, coming on site to meet with the client at periodic intervals and perhaps attending the last meeting when the final deliverable is presented. This is an important difference because the advertising partner has the social capital with the client, while the consulting partner effectively transfers their social capital to the onsite project team at the beginning of the assignment, and it is this team that develops the strongest relationship with the client.

The strong relationships between the project team and the client have bearing on why I found that clients were often willing to stay with the acquiring firm, as long as their on-site project team remained more or less intact. These on-site project teams consisted of the professional staff members who had the most frequent day-to-day contact with the clients and many of these project teams developed strong working relationships that were maintained after the completion of the project. In most cases the project teams were made up of a combination of high, mid level and lower level professional staff. Although partners and senior management members were often involved in the initial relationship building with the client, they were often removed from day to day project work and did not have frequent daily, weekly, or even monthly contact with the client.

This finding has potentially far reaching theoretical and practical considerations in how professional service firms should manage their social capital transfer after a merger or acquisition. Consistent with the social capital arguments and social embeddedness perspective discussed in Chapter Two, project team members who manage the interface between the client and the PSF organization are more likely to develop the strong interpersonal relationships and relationship-specific expertise necessary in the functioning of client relationships. This finding suggests that perhaps the relationships that clients value most are those they develop with their on-site project team, even if these professional staff members are of a lower hierarchical level. One possible explanation for this finding is that while relationships between clients and professional service staff involve the efforts of multiple actors at different hierarchical levels (Fichman and Goodman, 1996), it is the activities of these mid to lower level project team members that are most useful to the client. Indeed, the actions of partners are important for initially developing an exchange relationship, however, this social capital is in essence transferred to the project team staff when the client relationship needs to be operationalized. Ultimately to the client, this is where they receive value for their money.

In Chapter 2 four social capital theories were discussed. After the completion of this study we can now see that social capital *transfer* is most closely related to Lin et al's (1981) focus on "the strength of strong ties". Recall that Lin et al. contended that individuals benefit from social networks by linking up with someone who has the type of resource necessary for an organization to fulfill its objectives. In the case of social capital transfer during acquisitions, this can be connected to the relationships that clients and the project teams that they work with develop. The underlying idea of social embeddedness can also be tied to social capital transfer.

This is not to say that the other social capital theories do not play a role. However, I believe that this ties in with the idea that social capital is a multi-faceted concept. The varieties of theories that attempt to explain social capital are all justified because they help to explain the various roles that social capital play. Granovetter (1973) and Burt (1992; 1997a; 1997b; 2000) focus on the strength of weak ties (Granovetter through his emphasis on connections and Burt through his emphasis on structural holes) and this is related to the ideas of how social capital are *built, leveraged* and even *brokered*. These areas are especially important in the initial relationship development and this is where management consulting firm partners play a very strong role as it is often up to the management consulting firm partners to develop the high level relationships with prospective clients. However, after the initial few meetings, they in essence hand off the relationship to the project staff. Using Burt's terminology, they initially act as a broker. In the request for proposal (or RFP) that is submitted to the client, the proposed members of the project team are described in detail in the staffing section. Their attached resumes provide relevant educational information, past project experience and other pertinent information. After the contract has been signed, these members of the project team have been committed to the project. Although the relationship still needs to develop between the project team and client, there is already some element of confidence and trust because of the information that has been previously shared. With appropriate nurturing after the commencement of the project, the relationship between the project team and the client solidifies and social capital has been transferred from the partner to the project manager and their on-site team.

How to Best Manage the Transition or Transfer of Clients and Professional Staff from One Firm to Another?

During the completion of this research, it became apparent that a number of organizational factors played a significant role in the successful integration of clients and professional staff and partners. These factors emerged during the analysis of the interviews and cases and were related to the literature on mergers and acquisitions, social capital and professional service firms, as well as my personal experience working as a management consultant.

The organizational factors that impacted the successful integration of clients consisted of robustness of contracts (including length of contract, add on work and switching costs); the nature of the project work (strategic versus non-strategic work); timely communication; and most importantly, retention of the project team. The organizational factors impacting the successful integration of professional employees consisted of timely communication; goodness of organizational fit; and goodness of strategic fit. The organizational factors that impacted the successful integration and retention of partners included timely communication and keeping one of their own in charge of the management consulting practice. All of these factors ultimately impacted the successful transfer of social capital and human capital although there were a variety of potential combinations. Models of these organizational factors and their potential impact on the success or failure of client, staff or partner retention was developed and presented in Models 1 & 2 (found on pages 194 and 195).

As my results showed in Chapter Four, there are varying ways to use the above organizational factors and still achieve success. As discussed above, all of the offices studied achieved success from a social capital or client retention perspective, as well as human capital retention for professional staff. There were varying degrees of success from a partner retention perspective. Factors that were utilized at one office with success were not consistently used successfully at the other offices. However, there were some definite trends.

From a social capital or client perspective, Middleton and Quantum focused on robust contracts distinguished by short-term contracts and add on work. The primary nature of the work they performed was strategic. Timely communication was considered paramount. Edgewood and Fanfare focused on long-term contracts with limited add on contracts because every project had to go up as a request for proposal because of the stringent public sector RFP requirements. The primary nature of the work performed was information technology related. Timely communication was also considered paramount. However, it should be noted that although Edgewood retained clients through the completion of primarily performed longer-term IT work, this was not the nature of the work that CCC wanted the management-consulting department to focus on. CCC hoped to expand their range of service offerings from primarily information technology based work to higher level, more strategic nature work although at the time of my interviews, these types of contracts had not materialized. More importantly however, is the notion that both long-term, IT based projects and shorter-term, strategic based projects when combined with timely communication regarding the merger and acquisitions have the potential to impact the success of the acquisition.

The organizational factors that had more impact on the success or lack of success of all four acquisitions were human capital related. Examining human capital or professional staff and management/partner retention we saw that all four firms concentrated on timely and accurate communication. However, the factors of goodness of organizational and strategic fit had a significant impact on the overall success of the acquisition. In the four cases described in this study, organizational fit between the merged organizations had a strong impact on the perceived success of the acquisition and impacted the success of social capital transfer. Of all of the variables, the goodness of organizational fit between the acquiring and acquired firm was the most talked about observation of the participants. Of the four cases studied, Quantum and Fanfare had the easiest transition in blending the two firms, particularly in the areas of management style and culture. Edgewood experienced some difficulty in the blending of cultures. Middleton had the least success with organizational fit, particularly from a management style and culture perspective.

The size of CCC was one aspect of organizational fit that was difficult for all four firms. Pre-acquisition the Fanfare office consisted of 425 people, Middleton had 125 employees, Quantum had 100 and Edgewood 30 employees. CCC, however, in total has approximately 35,000 people worldwide. Participants in all offices spoke of how large CCC was in comparison to the other firms they had worked for. The size of CCC makes a certain number of policies and procedures necessary and necessitates a more formal workplace. To CCC's credit, however, most participants did feel that CCC specifically focused on keeping the best cultural elements of the organizations it acquires in place and this was appreciated at all four of the offices.

From a goodness of strategic fit perspective all firms felt that there was strategic fit between CCC and the acquired firms although there were opportunities to more quickly integrate the firms and potentially retain increased numbers of employees. Fanfare and Quantum kept the management consulting groups together after the acquisition and focused on integration activities such as placing senior members of the acquired firm into key leadership positions. Both firms were happy with the level of integration activities that took place although there was agreement that integration and induction activities could always be improved. Firms undergoing mergers and acquisitions should ensure that there are ample opportunities for all employees to meet their new colleagues and integration and induction activities should be tailored to suit each particular group. For example, administrative support staff would require different types of information and induction than the professional services staff.

Edgewood kept the management-consulting group together after the acquisitions, while Middleton did not. The management consultants from the Middleton office were dispersed throughout the CCC firm. Neither Edgewood nor Middleton put a member of the acquired firm into a senior leadership position. It should be noted that the Edgewood office had planned to put one of the Edgewood partners into a key leadership role, however, all four of the Edgewood partners left the firm six months to one year after the acquisition. As a result, a senior manager from CCC was placed into the Director role. From an integration perspective, neither office felt that integration activities were sufficient. Participants at both offices wanted additional opportunities to meet their new colleagues, increased communication, and the opportunities for their group to work together as a unit.

Surprisingly, although the Edgewood and Middleton offices were the ones that had contractual agreements in place for partners, these were the two offices that had the lowest rates of partner retention. The Fanfare and Quantum offices did not have contractual agreements in place. Although a number of participants at the Quantum office felt that contractual agreements for senior management and partners were necessary, this did not impact the numbers of senior managers and partners who stayed after the acquisition. In fact, in the offices were there were contractual agreements, the higher-level employees seemed to find ways to get out of their contracts and leave CCC before their contract had expired.

Limitations

There were five primary limitations in the above study. These were the non-use of multiple investigators, time horizon, the small number of cases, my inability to speak to clients, and the fact that I only was able to speak to one partner who had left CCC after the acquisition. Each of these will be discussed in turn.

Non-Use of Multiple Investigators: As this was my dissertation research, I was the sole interviewer, collected all of the data and completed all of the analysis. However, in most cases it is recommended that case study research use multiple investigators. Multiple investigators have two key advantages. First, they enhance the creative potential of the study (Eisenhardt, 1989). Team members often have complementary insights that add to the richness of the data, and the different perspectives of the researchers increase the likelihood of capturing novel insights. Second, the convergence of observations from multiple investigators enhances confidence in the findings (Eisenhardt, 1989: 538). To work around my non-use of multiple investigators I had my supervisor read my methods and findings chapters on a regular basis, in order to get his insights and to bring an objective eye to the evidence. I confirmed aspects of the interviews and case studies with my interview participants to ensure that I interpreted their thoughts and experiences accurately. I also asked colleagues not involved in my research project to read through aspects of my dissertation or discussed ideas with them, in order to receive feedback and gain additional perspective. If this research were to continue on after the completion of my dissertation and look at other sites and industries, then my hope would be that the continued research would be undertaken as part of a multi-researcher team.

Time Horizon: "Time horizon is a major part of research on mergers and acquisitions" (Schweiger and DeNisi, 1991: 130); however, the study of mergers in real time does not lend itself easily to research. The researcher has to be opportunistic, seeking access unexpectedly (given the secrecy of early merger negotiations) and at a time when organizations are undergoing service change and are highly sensitive to outside-induced inconvenience (Mangham, 1973). One potential methodological issue that arose in the current study is that the acquisitions took place between 2004 and 2005 and my interviews took place in 2008. Retrospection on the part of the interviewees was thus required. Retrospection, though not an ideal research tool, is an almost inevitable technique in merger and acquisition research (Cartwright and Cooper, 1992). To deal with this, I first asked my interview participants a series of probing semi-structured interview questions in an attempt to refresh their memory of this particular time in their organization's history. In addition, I also asked for access to internal documents such as retention statistics to help validate the interview data obtained. I was pleased with the amount of detail that most participants were able to provide. Although some participants admitted to not being able to recall certain aspects of their acquisition experience, for most participants, the details of this period were still remarkably vivid. If a future opportunity arose to access a site undergoing a merger or acquisition during real time, I would hope I was able to take advantage of this fortunate occasion. Access to participants' perspective on the merger and acquisition process while aspects of the merger or acquisition were being completed around them might result in a completely different set of results.

Number of Cases: The research study was limited by the small number of cases the primary researcher was able to access. Future research would be advised to undertake a study with a larger number of cases and as well attempt to access a site that did not provide the data results expected.

Inability to Speak to Clients: Another limitation of this research study was the inability of the researcher to interview clients. The client perspective that was collected for this study was inferred by the interviews with the participants with the professional service firm. The study would be enhanced by the opportunity to speak to clients and obtain their first hand views on what organizational factors assist in retention after a merger or acquisition.

Inability to Speak to Partners Who Left the Firm: In a similar vein to the above limitation, this research study was impacted by the inability of the researcher to access partners who had left the firm after the acquisition. Although the researcher was fortunate in the number of partner VP's that agreed to be interviewed, access was only obtained for one partner who had left the firm. The research study would be enhanced with additional interviews and perspectives.

Future Research Directions

As is typical of theory-generating studies, my framework gave rise to a host of questions for future research. Firstly, this research focused on social capital transfer within management consulting divisions of professional service firms. Future research endeavors should examine if the same organizational factors and retention of clients and professional staff apply in the context of other professional service firms.

Future research could also look at the impact of timing (i.e. when employees decide to leave a firm). In my research study, the majority of partners who chose to leave left the firm very soon after the acquisition announcement (within the first six months). A smaller percentage of partners left six months to one year after the acquisition and then a still smaller percentage left one to three years after the merger. For some partners, the delay in leaving was primarily because they were obligated contractually to move to the acquiring firm and stay for a certain period of time (usually between six months and one year). Other partners moved to the new firm with the intention of giving the firm a try, and then after a period of time, made the decision to leave and go elsewhere. It might be relevant to this area of research to try and determine if the timing of when people leave has any impact on the overall morale of the firm and how this ultimately impacts the success of the acquisition. Certainly, it was difficult for the employees of Edgewood, with their close, family atmosphere to have the senior partners leave the firm six months after the acquisition took place. This hampered the overall morale of the management-consulting department that was primarily composed of Edgewood employees and it also delayed their integration into the firm. In contrast, the Quantum office almost immediately placed one of the senior partners into a vice president role and this stemmed the flow of professional staff leaving the firm and positively impacted the overall morale of the CCC Quantum office and the ultimate success of the acquisition.

Future research should also investigate cases where the client project teams are disbanded after an acquisition or where large numbers of mid range professional staff leave the firm after an acquisition. This should be compared with client retention levels to see if there is any impact. As my study has found that the retention of professional level staff positively impacted the retention of clients, who would social capital be transferred to if this human capital retention did not occur?

Another issue that may also have merit for future research would be the impact of retaining junior professional staff with limited client contacts. Is the junior professional staff able to continue to develop and maintain the relationships initially developed by senior managers and partners who ultimately left after the acquisition? My research certainly showed that clients did not leave after the acquisition, even if the senior managers and partners left. The primary concern of clients was that the project staff working on site with them remained on the project. As long as this happened, then clients allowed their projects to continue to completion. However, my study did not examine if these on-site project staff assumed the relationship development aspect with this client or if relationship management role (including the role of selling add on work) was given to a partner or senior manager from the acquiring side of the firm. If these on site project staff (who were generally working as senior consultants) were to assume the role of relationship development, this should result in these junior employees becoming very valuable employees for the acquiring firm. This should certainly have positive impact for these professional employees from a career perspective, but what impact, if any, does this have from a social capital perspective?

Future research should also examine how successful relationship transfers are over the long term. In my research study the four offices have successfully retained the vast majority of clients four years after the acquisition, however, it remains to be seen if CCC will be able to attract and retain the next generation of their clients. Thus, it might be interesting to interview the four office sites again every two to three years and see if eight to ten years out the current client retention levels have been retained. It would also be necessary to take into account all of the other reasons that clients may choose to leave a firm. Past research (i.e. Levinthal & Fincham, 1988) has found that the longer that professionals are in relationships with clients, the more socially embedded the relationships become and the less likely they are to dissolve. The socially embedded aspect of relationships has been apparent in this research study. Once established, personal relationships become powerful forces of attachment.

Further to this idea would be to find cases where the client project teams are more or less disbanded after the acquisition announcement. Either because large numbers of mid range professional staff left a firm after an acquisition, or a case where the acquiring firm terminates the existing project team and replaces them with members of their own organization. What impact, if any, would this have on client retention and how would social capital be transferred in this somewhat hostile and uncomfortable environment?

Lastly, as the client retention piece of this study has been the most interesting finding and the one that potentially contributes the most theoretically, it would be worthwhile to talk to clients to determine their primary reasons for staying with the acquiring firm. Currently my conclusions are based on what was said by my interview participants, or based on my own perceptions of what clients are like from working as a management consultant. The opportunity to interview clients and find out if there are actually a different set of organizational factors in place that encourage their integration and retention would be greatly beneficial to this area of research.

Conclusion

Overall, my theoretical contributions from this study lie in reframing the idea of social capital transfer. Although the study has limitations, my results suggest that the strength of ties is a factor at all levels of a firm, not just the senior management levels. From the perspective of a management consulting firm, some social capital transfer takes place between the partner and the project manager/project team at the outset of the project being that most of the project work is completed on site at the client by the project work team. The partner that initially developed the relationship has continued involvement, but only at a high level, coming on-site to meet with the client at periodic intervals and often attending the last meeting when the final deliverable is presented. This is an important difference from earlier studies that investigated the world of advertising and investment firms. In advertising firms, for example, the partner keeps the social capital they have developed with the client, because they remain actively involved in the project through completion and are the main point person for the client. These strong relationships that developed between the management consulting project teams and their clients due to their close working relationship most likely had bearing on why my study found that clients were not usually impacted by partners leaving the firm after the acquisitions took place. Overall, it is apparent that the effects of social embeddedness are very powerful and employees below the partner level must be given credit and consideration for the relationships that they develop and maintain with clients as these relationships are directly related to the success of the firm.

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Appendices

SCHEDULE A: INTERVIEW GUIDE

1. Background information

1. What is your current position in the firm?
2. What is your history with CCC?
3. When did CCC acquire Edgewood?
4. Why did CGI acquire Edgewood?
5. Is part of CCC's growth strategy to acquire firms?
6. If so, what does CCC look for in a firm before making the decision to pursue an acquisition?
7. Is there any thought place on the value of the clients/staff of the firm being acquired? (formula)

2. Retention of Staff

8. How did staff find out that the firm was acquiring Edgewood?
9. When CCC acquired Edgewood, what was the process for retaining staff? (or was that an issue/goal?)
10. Did most of the Edgewood staff stay on after the merger?
11. Was a special effort made to make Edgewood staff feel welcome and part of CCC? If so, how?
12. What types of activities helped make employees feel part of the new firm?

3. Retention of Clients

13. How did Edgewood clients find out that CCC was acquiring the firm? (i.e. letter, email, personal contact)
14. , Was there a process in place for retaining Edgewood clients? If so, what was done?
15. Were clients of Edgewood made to feel welcome by CCC? If so, how?
16. How many clients stayed on with CCC after the acquisition?

4. Development of Social Capital

17. Is client relationship management a big part of your role at CCC?
18. As a management consultant, how do you develop relationships with clients?
19. How do you maintain your network of relationships?
20. Do you have a certain network of contacts that you try hard to maintain? If so, can you describe what type of contacts are in that network and what types of things you do to maintain them?
21. How important is your network of relationships to your business? (both clients and other business contacts) Does this network enable you to obtain new business?
22. What value would you place on your network of relationships (can you place a value?)

5. Transfer of Social Capital

23. When acquiring a firm, what issues are there regarding the client list?
24. What did you do personally do to ensure that Edgewood clients were transferred over to CCC?
25. Did you make an effort to try and personally introduce Edgewood clients to CCC staff?
26. Have you heard any comments or reaction from clients with regards to the acquisition?
27. Are you aware of any cultural issues between the two firms?
28. Did you do anything that in retrospect made the client transfer process easier?
29. How successful do you feel CCC was in transferring client/retaining staff?
30. What would you do differently now to successfully retain clients/staff? Lessons learned that you would use in future acquisitions?
31. How successful overall do you feel the acquisition was?

Schedule B: Information Sheet and Consent Form

Research Project: How Professional Service Firms Maintain and Transfer Social Capital

Thank you for agreeing to assist me with my research study investigating how professional service firms' retain and transfer clients and professionals during a merger or acquisition. You have been asked to participate in this research study due to your involvement with the CGI/AGTI acquisition. I have developed a set of interview questions that I would like to go over with you in order to gather your thoughts and experiences in this subject matter. The interview should last approximately 60 minutes. In total, I will require no more than 90 minutes of your time.

The Principal Investigator of this project is Megan McDougald, a PhD Student at the School of Business at the University of Alberta. If you have any questions regarding the procedures surrounding the interview, please feel free to contact Megan McDougald at (780) 970-8417 or msm5@ualberta.ca. The purpose of this doctoral research project is to gather data using interviews that will result in a completed doctoral thesis as well as publications in academic journals. The doctoral thesis, as well as any publications in academic journals will be public documents. The information that you provide in the interview will be used to further my study of social capital's impact on the ability of professional service firms to transfer and maintain relationships after a merger or acquisition.

Your identity will be protected in the documentation of this data, as no personal identifiable data will be located on your interview and I will be referring to your feedback using a pseudonym. Every effort will be made to safeguard any information you provide during your interview. Your interview data will be kept in a locked filing cabinet and only myself, Dr. Greenwood (Megan McDougald's doctoral supervisor) or Michelle MacLean (Dr. Greenwood's research administrator) will access the data. Upon completion of the study, the interviews and audio tapes will be kept for 10 years and then destroyed.

By signing the consent form you are agreeing to participate, however you are under no obligation to complete this interview, and are free to withdraw from the study at any time without consequence. If you decide to withdraw from the study, your interview will be destroyed upon request. If you have any concerns about your treatment as a research participant, you may telephone the School of Business Research Ethics Board at (780) 492-8443 or researchethicsboard@exchange.bus.ualberta.ca

Thank you for your time. Your participation in my study is greatly appreciated.

Consent Form

Research Project: How Professional Service Firms Maintain and Transfer Social Capital?

This study has been explained to me by Megan McDougald.

By signing below, I understand that my consent has been given to the researcher to use the data provided in the interview as part of the above study.

I understand that every effort will be made to keep my information confidential. No personally identifiable data will be located on the interview. Competed interview data will be kept in a locked filing cabinet and only Megan McDougald, Royston Greenwood (Megan McDougald's doctoral supervisor) or Michelle MacLean (Dr. Greenwood's research administrator) will access the data. Upon completion of the study, the interviews and audio tapes will be kept for 10 years and then destroyed.

I acknowledge that I have received a copy of this signed consent form, including all attachments.

I understand that I am under no obligation to complete this interview and am free to withdraw from the study at any time without consequences. If I decide to withdraw from the study, any personally identifiable data will be destroyed upon request.

Name of Participant: ________________________________

Signature: ______________________________

Date: ________________________

Name of Researcher: ________________________________

Signature: _______________________________

SCHEDULE C: DIRECT OBSERVATIONS

Fanfare – April 2008

1. _____________, VP
   -left Fanfare in 2004, just prior to announcement of merger
   -came back in 2005, approximately 1 year after merger
   -Fanfare was in trouble, pretty much from 2000 on (after dot com crash) – similar to many other firms like PwC (not in trouble per se, but business went down). His wife used to work for PwC and she said in 2000/2001, all their offer letters to potential new hires were rescinded.
   -CCC – very much focused on the Federal market/area
   -must staff stayed on initially, not a lot of information given out so they wanted to see what was going to happen.
   25-30% of the Fanfare staff left after 1 year. This was for a variety of reasons, although exit interviews completed by most staff are not very forthcoming or useful. They say "better opportunities elsewhere" whether that is truly the case or not.
   -client list does have impact, however, not a lot of focus on keeping clients informed.
   -he said that some staff seem to pine for the "good old days", but he tells them that Fanfare is no longer around, so they can't go back to it. They can leave and go somewhere else, but not back to Fanfare.
   -most "direct client" staff didn't leave at first, but many "indirect client" staff did leave, but they were let go due to duplication of positions.
   -in his opinion, the acquisition was definitely a success
   -clients did not leave, they stayed on although there was some concern as to whether the client manager would be different (it wasn't) and also the fact that a Canadian company was purchasing. Especially here in the Federal area.
   -this interview was very similar to the interview with the VP at Edgewood – very careful, positive spin, don't say too much. He wouldn't really elaborate on the details of the merger or the situation afterwards. The interview was under 60 minutes.
   -however, there were some questions that I could not ask him, as he was not in the firm at the time of the merger.

   Potential Themes I see:
   1. type of firms that CCC acquires are small and in financial trouble so are a good deal for CCC
   2. cultural – Fanfare sounds very similar from a cultural perspective to Edgewood.
2. _________________, Director
   -joined Fanfare in 1999 as a Senior Consultant
   -experienced in Federal Government area

-called HR Department for me to see if she could get some turnover stats for me to confirm the number of people who left Fanfare/CCC after the acquisition right after the acquisition was made and then in the couple of years afterwards.
-in her opinion the acquisition was a good move.
-she seemed very reserved at first. She for some reason thought that I was a CCC employee doing my PhD, although she said that wasn't a problem. Once we cleared that up, her demeanor changed and she was much more open.

3. ______________________, Subject Matter Expert (Project Manager Level)
-was on mat leave during acquisition announcement
went back to full time project manager when she came back from mat leave
-really didn't impact her overall
-she didn't feel worried that her job would be impacted at all
-reminded me of Andrea in her attitude to work and how she reacted.
-mentioned that communication overall could have been improved.
-overall after my first day I found the people to be quite reserved, overall very positive about the impacts of the merger. Really didn't significantly impact them – same office, same people.
-most significant impact was the loss of the people on the Defence project – the people who had to go to Khaki (another company) due to the concerns with foreign ownership.

4. ___________________________, Senior Consultant
-most junior person I've interviewed so far.
-was on a long term offsite project when acquisition was announced.
-the info she received was all filtered down from her project manager.
-first person to mention the annual roadtrip where the head of CCC visits the company and lets people know how the past year has been and how things are going to look ahead.
-to her merger was a success – she was happy with the communication
-said that CCC people told them up front that they didn't want to change them, that they wanted them because of their Federal Government business. Wanted them to continue doing what they were doing, just under new ownership.

5. ______________________, Senior Consultant
-has a history with Fanfare and now CCC
-had been laid off just prior to the acquisition announcement and then brought back in on a best practices internal group. When the acquisition was announced, the first reaction of the team was that they would all be let go. Some people were, but he found a new position because he knew someone in the Courts Group. His goal after the acquisition announcement was to be a billable, longer term position. Having this happen was great

because he had had a lot of unrest for a number of years prior to the acquisition.
-his biggest suggestion would have been that CCC transfer some of their knowledge management. For example, the first outsourcing project that he did, his expectation was that someone from CCC would help them, give them examples, help with wording etc. But this didn't happen. He had to write his proposals on his own, with no idea whether this was accurate wording or not.
-overall, he feels the acquisition was a big success. He felt that it would be interesting if I spoke to another CCC office that did not become a CCC Federal office. For example, Birmingham or Dusseldorf.

Quantum, May 5 and 6th, 2008

6. _______________________, VP
-first language is French, does not speak English frequently
-good success of the acquisition
-explained how the Quantum office works
-long history with Quantum and CCC
--merger paid out the head people in full (they made money) at beginning (cash was paid upfront). They became millionaires. One fellow made $5 milliion and other $1 Million. These were the people who left – no incentive to stay. They either went independent or went to smaller firms. He has suggested that they stagger the payment out a few years in the future to ensure that senior people stay longer.
-This is what happened in Edgewood as well (the partners left very early on as they received their money quickly). Maybe CCC wants top people to leave?
Not sure what happened in Fanfare although people left there too.
25 people left Quantum in the first 6 months after the merger. Might have kept it to 10 leaving if there had been incentive to stay.

7. _________________________, Senior VP
-this interview was conducted in a restaurant over lunch so it was hard to hear the recording afterwards at times.
-we did speak offline a bit about the way CCC does its mergers. It pays the founders up front and doesn't require them to stay. So in the Quantum case, the head of Quantum decided to retire right off the bat and my first interview (the VP) was then put into place as leader of the team.
-But some of the other principals left as well and founded a firm called Solucontreau and this firms is a direct competitor and stole some staff (about 20) and clients.
-The head of CCC, his attitude is that people leave earlier (this is better), than for them to come in , stick around and learn the insides of CCC and then leave and compete against them.

-From an ethical perspective, B does not agree with this though. He thinks that this is his most bitter experience from the mergers (people being paid out and leaving as soon as the merger announced).

8. ______________________________, Senior Consultant
-his English wasn't entirely comfortable although he did very well, however this impacted our interview somewhat as he had trouble expressing himself.
-overall though, he saw the acquisition as a great opportunity. He likes change and found coming to a big company a great change. He made the effort to meet people and get to know the CCC people and felt very welcomed. Others who hid in their offices and didn't take the same approach might have found the integration much more difficult.

-he felt that CCC could have done a better job of this –social activities for new people to make them feel welcome. Treat them like new employees – now they have coaches/programs for new people.

-he mentioned the fact that this is an older team which he liked. Not a bunch of young people who want to be out socializing all the time, but instead people with experience and a life outside of work.

9. __________________________________, Senior Consultant
-he was part of CCC, left to join another company, joined Quantum, then about 18 months later the announcement for the acquisition happened.
-he was the first person who wanted a copy of the consent form he signed.
-although he said the acquisition was a success, he did say that it was a different atmosphere.
-he enjoyed working with a small company, he said you had more interaction with the top management personnel, different relationships etc.
-he too was a bit uncomfortable with English so he said he was translating all the time and this perhaps stilted our conversation.

10. ________________________________, Senior Consultant
-Ricardo came to CCC in 2000 through an acquisition with GIS. He is a land surveyor by training, then did an MBA and became a consultant. Joined the Quantum team at CCC in 2006 (one year after the acquisition).
-he found the acquisition process to be well done.
-he moved into the Quantum group and found the transition easy. He said he was one of the older team members in the GIS group and he was happy to come over the Quantum group where the people where older and very experienced. He felt he could learn things from them.

11. Thoughts on process to date (May 6, 2008)
-CCC seems to do a very good job of their acquisitions.

-bring in groups that add expertise, they don't just add for size. People find moving from small to large difficult, but otherwise the culture etc. seems to transfer quite well.
-might need to interview people from a couple of different firms in addition to CCC, to see if I can get a different perspective. (i.e. maybe go back to BSCol again and talk to Andrew).
-IBM/PwC (Julie/Tracy)
-Sierra/TkMC (Rhonda, Susan, Chris, Don)
-CCC keeps groups intact (at Edgewood, Quantum, and Fanfare(so for staff and clients there really wasn't a lot of change. This helps with the transition, although it takes them a long time to stop thinking of themselves as ex-ACCers. Sometimes a lot of talk about the good old days – perhaps too much.

12. ________________________________, Former Quantum who experienced another acquisition when his firm was bought by LDS, a division of IBM.
-was a partner in a small business development firm that sold to LDS, LDS was then acquired by IBM in 2002. Joined Quantum in 2002, then Quantum was acquired by CCC in 2004.
-had different perspective because he's been a partner who made a decision to sell a firm (due to financial reasons in 2000), then has been part of firms being acquired now that he's at a lower level.
-he spends 99% of his time on the client side so is a bit removed from some of the goings on.
-asked him about client transfer (to another consultant) he said that if the client was already familiar with the other consultant and their expertise that it might not be so bad, or difficult, but if the client did not know the other consultant it would be very difficult, if not impossible.
-this is the issue I think –so far of the people I have interviewed, client transfer has not been an issue. The firm gets acquired, but the client team stays the same so to the client there really isn't a change. They pay cheques to a different firm, but not much else changes for them.
-would this be different if the founder was leaving?
-or what about the clients of the head ACC firm who did leave? No one has spoken about this.
-lots of references about M being bad with regards to the acquisition. It will be interesting to see if this is true. If so, this will be my first real example of a poorly managed merger or a merger that isn't a success (from the participant's perspective).
-Quantum very much a public sector market
-small market-everyone knows each other so people can follow clients around-not a huge emphasis on networking
-even maintaining contact with clients has not been done to a certain extent.

13. ______________________________________, CCC mgr, member of another mgmt team, who can act as a witness to the CCC/Quantum acquisition.
-although my interviews to date were very positive in the Quantum office, S had more of a negative impression.
-he is a change management person, part of the other consulting group and there was a definite feeling of animosity coming from him.
-=he felt that the Quantum group felt they were more elite and doing more important work. However, in his opinion this was not the case. He did not feel that they should have split the two groups into 2, he thought they should have all been integrated. He said that after 3 years only now had 1 or 2 people even come to change management session he had held.
-it was interesting to hear this response after having had 6 very positive interviews previously.

Middleton Office (May 7 & 8, 2008

14. _______________________________, Director Consulting from the Middleton side
-R came from being partner of another firm called CCDI that was acquired by Middleton. This was a very collegial acquisition that worked very well. The Middleton/CCC acquisition did not go as well.
-even though he knew it would probably happen eventually since CCC had 49% ownership of Middleton already, the opinion was that it would be better if it didn't go ahead.
-thought the integration was handled poorly, the people from Middleton came over as a group initially and were then dispersed – then people really started leaving.
-70% left, he checked the figures for me.
-in his opinion, it would have been better if Middleton was left alone the way that it was.
-Stressed fact that the Middleton office was made up of very senior people. CCC was not the same, less senior, different kind of work.

15. __________________________________, Senior Consultant from Middleton side
-very surprised to hear the acquisition announcement. Thought Middleton would say as is.
-feels embarrassed to say she's from CCC, after feeling proud of saying she was from Middleton. Is planning to leave soon, at the conclusion of her next project sometime in the next few months.
-she is at the client site most of the time and doesn't get into the office very often.
Had gone through another acquisition in the late 1980's (manufacturing). Said that time it impacted her less, but this might have been because of the place she was at in her life. She had small children then and her focus was more on that than worrying about work.

16. ____________________________________, Senior Consultant from Middleton side
-came from Bombardier to Middleton about 1-2 years prior to the acquisition announcement.
-was a bit surprised with the announcement, he thought Middleton would stay the way that it was.
-doesn't feel that everything with the acquisition was well handled, however, personally doesn't have big issues with it. He very much enjoyed working at a smaller firm, but since he had been part of a large firm for 20 years prior, the transition was relatively easy for him.
-definitely thought it impacted others though.
-he commented on how many people left.
-said that as long as he could continue working on client projects, and didn't have to come into the office often, he was happy.
-because of personal commitments, he did not work too hard at maintaining a network outside of the office. Is going to professional assoc meeting, etc.

17. PP, ex partner, left Middleton and started his own competing firm
-was one of the founding partners of Middleton in 1998, although not at the top tier level so he was not involved in the decision to sell Middleton to CCC. He did found out about the acquisition prior to the rest of the employees though.
-he said that originally when the plan was for the group to remain a separate entity within CCC and report directly to the President that people felt optimistic that this could be a good move. However, this only lasted about 6 months and then CCC went through a reorg and people began to be dispersed and they started dropping down levels of who they reported to.
-he left after 1 year – he had to stay one year although this wasn't a formal agreement, it was a gentleman's agreement. After 1 year he left and started a new firm, but had to wait another year before they could do work with former clients.
-in his opinion, "if the wheel isn't broken, don't fix it". Middleton was operating well as it was – it didn't need to become part of CCC, they did very well on their own.
-noticed a lot of culture change. Big firm versus little, the formalities i.e. had to wear a tie, the rates, the CCC rates were much lower, even in the CV's they had to fill out, no drop down box to specify the type of work that they did.

SCHEDULE D: SAMPLE OF CHRONOLOGICAL CASE STUDY FOR THE MIDDLETON OFFICE

CCC acquired 49% of ACS with an agreement to buy the rest in 5 years. Which would have been December or something like that 05 or somewhere end of 05. They finally concluded the other 49% in 04 because everybody knew on the street that something was going to happen in 05 and both parties were scared that resources and clients would start to say "well what's going to happen so might as well find a job now." So we kind of hurried it by a year. I was not with ACS when the initial deal was consumed, but I was very close to the CEO when it was concluded in 04. So the initial reason I think from the CCC perspective it is hard to say, probably access to some senior consultants that had ways and to uh, CSO's that CCC did not have. I would probably say that. From the ACS perspective it was a hell of a good way to monetize the value of the company because ACS was a privately held company.

Interviewer: So the way the CCC deal was set up then was that every body knew that CCC would take over or acquire ACS in full 100%.

Participant 029: I think it was, at least all the partners of ACS knew which means that from that day on even if you sign a non disclosure agreement, the street knew it. There were too many partners there. When you've got 75 or 80 partners, you're sure that somebody is going to say it. And there was a partner that left between the transaction and the conclusion and I'm sure they kind of said it. I don't think it's possible to keep something like that secret. So it was a known fact. Well, I'm not sure the street knew specifically, but they knew that something like that was bound to happen.

- CCC's business model is a regional business model so it is divided into business units that are based on different cities. So we're part of the Middleton business unit. Within the Middleton business unit there are vertical silos based on industries and our transversal practices that serve all silos. So I'm part of the management consulting practice that serves all sorts of businesses here in Middleton. Basically we're serving Middleton businesses. In management consulting, most of our customers are walking distance from the office.
- serving the public sector – public sector, the energy sector, the private sector, banking, finance, insurance sector. Um, we're ….that's pretty much the industries we serve. Some of our major customers are Desjardins, National Bank, Laurentian Bank, Bombardier, and Aerospace, every insurance company, in fact every bank in Middleton, every insurance company, manufacturing our largest customers are Bombarier. We're serving up also from Middleton, the Deutsche Bank in Germany for some aspect of their business and so it's kind of a complex model. But, my role is uh, director of consulting within the management consulting practice. I'm also part of the management team of that practice, along with

4 other people. We are managing a group of over 100 people and um, our service offering is divided into – we help or we assist our customers in their transformation. That is basically our mission and our service offering is divided into business strategy, business projects, change management and learning solutions. So we can assist the customer from defining its strategy, all the way to providing him with learning solutions for his staff.

I was one of the partners of ACS. This was a firm founded in 1998 or something like this. As you mentioned previously, consultants are people who have many relationships, so our president of ACS was let's say a friend of Serge Goudet (the head of CCC). They kept that relationship for all the existence of ACS and at one point CCC wanted to have a management consulting division and so they approached ACS and they first had some participation in the company and then they totally acquired it in 2004 I think. I'm not very good with dates (laughs). So, um, at that time we were then incorporated and really embedded into CCC so we moved from our offices to CCC offices and most of the partners like me were – we agreed to stay there at least 1 year.

Interviewer: Okay, that was a condition or just …

Participant 028: There was a gentleman's agreement, yes.

Interviewer: Okay.

Participant 028: Of course the main partners of ACS had something more formal. They had to be there a year, other partners it was more of a gentleman's agreement. Um, and during that year I think most of us really tried to get into CCC and to be involved and to switch our heart from ACS to CCC. But I think it wasn't really easy. So, a couple of former partners and colleagues we decided to leave after a year and we founded E3 Consulting Services. Which offers more of less the same type of services that ACS was offering at that time. Management consulting, project management and IT consulting. That 's briefly about it, I don't know if it is clear or not.

Interviewer: Okay, so um were you part of the kind of decision making process then with regards to the acquisition or did you find out with all the rest of the ACS staff?

Participant 028: Okay, no I wasn't part of it. As a partner we had some privileged information, but I was not part of the negotiation, this was more the business of the main partners, there were three of them who were involved in that.

Interviewer: Okay, so they made the decision and started rolling it out to everyone else.

Participant 028: yes.

- I joined in 2001 a firm called CCDI, which was a consulting firm specializing in project management and we were doing consulting work in managing by project. Mostly in the manufacturing sector, all over Quebec. We had an office in Quebec city, also in Middleton. That was a group at the time of about 40 people. We were purchased in 2003 by ACS because we were not serving the IT market. And at the time the IT market was a bit shaky and so they wanted to diversify their sources of revenue. And we were serving manufacturing essentially. And we had a project in managing by project that was unique at the time and was of good value to ACS. The other reason for buying CCDI was that ACS was already owned by CCC at the time at the level of 49% since 2000. and there was a deal where CCC would complete the purchase in 2006, I believe if I remember well. And the purchase of the remaining 51% was based on the revenue, not on the profitability. There was a minimum profitability required of 6% net, but the value of the remaining shares were based on the incremental revenues. So that's why ACS at the time between the first and second client purchased, was looking at increasing its revenue substantially. So they acquired CCDI and they acquired another firm in Middleton called Manteur with 40 or 50 people as well that specialized in learning solutions. And that was a well known firm in Middleton with a good reputation. So the objective was to increase the revenues for the planned purchase of the remaining 51% in 2006. And ACS sold their remaining 51% in a common agreement between the main shareholders in ACS and Serge Goudier of CCC earlier, back in November of 2004. the deal was signed and concluded in December of 2004. There were two incentives to complete the purchase earlier. The first one from the ACS point of view. Microcell, who was a major customer of ACS at the time, employing a large number of people in the firm, had been purchased by Telus, no Rogers at the time. And, uh, there was a clear indication that Rogers would stop a lot of the consulting work and move that work within their offices in Toronto. So there was a risk of revenue reduction, important revenue reduction, and therefore an implication on the value of the remaining 51%. So, that was the incentive of ACS to move quickly. On the CCC side, CCC had not been able over the years to build a group of senior IT consultants here in Middleton. And that is why they had purchased at the time ACS, and um, they were not able to set up a group. There had been a lot of, several in fact, 4, trials to do that between the first purchase of ACS and the second one. And they not able to do that. They were not able to attract people and they were not able to set up such a group. So Serge Gaudin saw in his crystal ball a lot of major projects coming on where he needed those people. He needed those people on board. And with the CCC label not with the ACS label. Because they were sharing resources at the time. And CCC was, you know, when CCC needed some senior consultants, they would get them from ACS. There was a business link there. Although the business link was not publicized from the ACS point of view. IN reality it was there. But Serge wanted these people under the CCC label. So both had motivation to sell and buy so they moved ahead a year earlier and the deal was basically closed between the three main partners of ACS and Serge a little later on.

How did staff find out?
Actually, it was a kind of gradual. As I mentioned CCC first acquired some shares. So it was another partner so CCC was there, but not as the main partner, but as the owner. So we gradually …this was in 2001 or something like that. A few years before the formal acquisition. And um, so we tried to work together like to join for bids for example and things like that.

Interviewer: Okay.

Participant 028: And even if it was not officially said, most of the people were expected that they were, CCC was to acquire the entire ACS. Um, and when this happened it was actually, I think that the communication was quite well done. Because actually it is also a part of our business. I mean we were ACS, and we are in change management. So we tried to …

Interviewer: Did the process you would use with clients. Okay.

Participant 028: yes, exactly. So we tried. And it wasn't that bad. It was actually quite well done. It wasn't just simple email. We went to meetings, first partners were informed. And then we informed our resources and we had the opportunity to ask, everyone had the opportunity to ask questions of the president during general meetings. So it was well done I think.

Interviewer: So you said that people weren't necessarily that surprised then when the announcement was made cuz everyone knew it would happen sooner or later.

Participant 028: Yes, I would say that most of the people didn't want that.

Interviewer: right, they liked ACS the way it was. Okay.

Participant 028: Right.

Interviewer: Didn't want it but knew that most likely it would happen. What about with regards to coming in to CCC, sort of from the CCC side, were there things done to integrate ACS people into the CCC sort of organization? Or Family?

Participant 028: Yes, I think that they, I think that CCC showed good faith in that they really worked with our human resources people to ease the process. And um, it wasn't that much integration because at the beginning the idea of CCC, what was communicated was that ACS, we went ACS to come with CCC and even if ACS will lose the name ACS, it's going to remain an entity of itself.

Interviewer: sort of separate?

Participant 028: NO, not on a financial basis, but …

At the time I was part of the management group of the CCDI division. We were within the same premises, but we were managing our own P&L and managing our own business. Um, there were two partners at CCDI and myself who was not a partner by choice, and who were managing the business and we all got the news like every other associate at some point that this decision had been made to sell the company to CCC.

Interviewer: Okay. And was it a meeting?

Participant 025: Yes, I was not there because I was not officially an associate. And so at the end of the meeting I got a phone call by one of the other partners and I got the message. They were not very pleased.

Interviewer: The two other partners? Or associates in general?

Participant 025: Yes, the other two and associates in general.

Interviewer: So people were surprised then?

Participant 025: They were surprised that it was happening then. They understood the rationale, but they didn't like the idea. Because ACS was uh, kind of interesting entity in that it was a more of network than a company. A network of friends and a network of former employees of DMR and a network of former senior IT persons that a lot of them had been CIO's in other companies. They had left those roles and by choice had decided not to go back to a large company. And so ACS was kind of a harbour for a lot of people like that, that were doing high level consulting work and people were happy with that. There was basically no constraint and administrative constraint. And um, people were very happy with that.

Interviewer: And how big was the ACS office?

Participant 025: ACS was, overall, at last count it was 350 people spread over Quebec and Middleton and Edmonton.

Interviewer: right, and I think that Edmonton was the smallest.

Participant 025: And there were small offices in Victoria, Vancouver, and Calgary, but basically centered around Edmonton. The largest group was in Middleton, we had 125 permanent consultants in Middleton plus operating staff that was minimal. And some contractors.

Do you remember as an employee of ACS how you found out that CCC was acquiring the firm? Do you remember how you found out?

Participant 026: Yes, we had a meeting. Actually they called the meeting at the very last minute, in the afternoon, or maybe the day before, or just in time. And so we knew that something was going on. And uh, we weren't really not expecting, we don't feel good about that, we thought oh who is going to acquire us. It is probably something like that they are going to announce.

Interviewer: So you were suspecting it?

Participant 026: Yes, and during the meeting we had the President explain the market now, the current situation and after awhile I was kind of thinking that he is explaining that he is going to sell the company and I thought, oh no! Because I really did appreciate ACS and so I was not happy about that.

Interviewer: And you were quite surprised? Well, not really I guess because you thought you were going to hear an announcement.

Participant 026: I was surprised about the acquisition. I'm kind of naïve. (laughs). Like, I did like to be with ACS. I knew that CCC did acquire 49% of the company and stuff like that, but I really thought and that's why I say I'm naïve, I really feel that it's going to stay the way it is because ACS and CCC are quite different and it's impossible that we could be uh acquired by CCC and so, I thought it won't happen. So when he was explaining it, I thought but it doesn't make sense. Although obviously this is what he is announcing, I felt, huh, I don't want to hear that! So for me ACS was super, senior guys, um, you know they had made their money and the power trip was not in their approach. It was very, you know people who are wealthy, know a lot of people, it seemed very interesting. Working for 17 years for Bombardier, I didn't have as many contacts as these guys. To me it was perfect, I could offer my skills and they had the relationships to find interesting mandates. Now, for them the perception I had was that they weren't very happy about it because I think their reality is if you have a company of 300 people because you want to do what you want, when you want to do it, the way you want and that's it. Now going into the big brother type, the big family, then you have to do it like this, you have to do it like that, you have reporting. I know a bit of the business being with Bombardier for many years and I felt right away that they weren't happy. They didn't say it because they are professional but I'm not 20 years old. I can feel these types of things (laughs). So, um, …

yes, you could see that they weren't happy about it, but probably the money made it a bit attractive because obviously they didn't leave with only an empty bag eh. So, you know, but they really gave the impression that they weren't, not unhappy that we were part of CCC, just not happy that what they built wasn't going to continue. So it was interesting to see that. Did I feel threatened or …by the move? No, because uh knowing a bit CCC, knowing Bombardier you are going with the big company.

Interviewer: so that part was okay.

Participant 027: so if they buy or if they merge it is because they don't want to just fire everybody after 2 or 3 days. Logically (laughs), um, but I uh, was very skeptical about the inertia of the company. The size worried me a bit, because I left Bombardier because I felt it was too big. Much too big. So, I said, well I'm going to go in and see how it goes and I'm still here (laughs).

Interviewer: So it must have gone okay (laughs).

Participant 027: well for now it is going okay. It still, you know the, it is still big. You can't get away from that so you have to just decide, can you live with it or not.

Interviewer: right, right.

Participant 027: for the time being, I can live with it. I don't know if I am going to live with it until my pension but for now it is okay.

: they did a lot of things to make it smooth and easy. But, they were, I'm trying to find the best word. They did it as a big company to a small company so it didn't work, to me it didn't work well. You know they were like, we're the big guys, this is how it works, just come along and you'll see it is going to work fine. The interrelationships, the smoothness, the human aspect, to me it was not enough. I am used to it, so I got over it. But if I would have been in a small company for 15 or 20 years and I would be acquired by CCC, it would have been I think it would have been very tough. In fact I don't have the numbers but I think that a lot more people left than people stayed.

Interviewer: from the ACS people?

Participant 027: Yes, from the acquisition. I believe the reason, one of the reasons is that the people didn't feel like you know, when you are in a 200 people firm, you get to be a, it's like a small family.

Interviewer: yes, that's right. Everybody is close.

Participant 027: so going back to the big company, they couldn't have anything to hold on to. So I think that for me that is what I felt. But again, coming from a big company, to me it didn't hurt. Your procedural things, like time sheet reports, to me there is nothing there. I got over it, you know, you want it like that, you can have it like that. I didn't get upset over it, but some people got pretty upset so uh, no, I think they did the best they could. But they did it like a big company. How do you say that – they didn't have the proper skills to make people feel welcome. They tried, but it was very - here's the salary, here's how we convert your salary to our bracket. That was very well explained, but um, to give you an example where it is a bit, to me it was a bit stressing at the beginning because they were making a lot of big fuss over it. When you are not, when you don't have a mandate, then people get almost sick about it. So, by realizing that everybody is nervous, you are getting nervous too. Say, now what's going on. At ACS, the model, the business model was very different. I think we were charging a lot more per hour, because they were selling strategy, they were selling seniors and the mandate could be like 3 months, 6 months, but here you could go for a mandate for 5 years and they don't see you for 5 years. So it is almost a recruiting place. So, I didn't realize it honestly at the beginning, but it didn't take me long to realize it. And by doing so, if your hourly rate is less then it means that they cannot afford to have too many people on the bench unless they have something else coming, like outsourcing contracts and things like that. Making it a big company, you can say okay, I can have some people sitting there for a month or so. But on the other hand, the model that …they are trying to be less demonstrative about it, but at the beginning they were, it was very awkward because they saw that they need you and it's important, but the other way you have a mandate, you don't have a mandate, what's going on, we have to find a mandate. They were stressing this so much, that people were stressed by it. It's like they don't know what to do. When we were there was no mandate, it's time to clean up, it's time to have an internal project, it's time to dig you know a new approach or find out if we could help the marketing guys or you know, here it was jeez, there's something wrong with you because you don't have a mandate. So at the beginning it was quite, then what happened it's a negative effect. You take almost anything just to get out of here. Even if it's lousy so if people ask you if you have a mandate, you can say, don't worry about it, I have a mandate! If you don't, you're under the red light, blink, blink, blink! Now it's changed, I think they are working hard not to demonstrate that. But what is confusing to me is that they are working hard to – we have a department called management services or consulting services within the big box, but it is not sold. Just to, I believe we could help without doing any PR or any marketing, we could help the projects that CCC has alone, just with our 100 consultants that we have. But you know that your worst enemy is within and it's the same thing in those big companies. People don't even know we exist. People don't have the reflux. They hire outside where maybe I can do the job. Well, that's typical of big companies, the right hand doesn't know what the left hand is saying or doing. So I think there is a lot of work being done by the senior guys here.

Interviewer: Trying to make sure that the senior guys know.

Participant 027: Even CCC's customers didn't know that CCC had consulting branch. They think of outsourcing, IT, big projects, turnkey. So, in a way it is interesting because it means that it is going to develop some potential because CCC is so big in Middleton at least you can go around CCC. Um, but if you look at it a big negatively, and say well gee we have to fight every day to say we're here and we can do this or we can do that. But that's part of life. If I had my own company it would be another problem, another challenge. So, I'm just explaining what my understanding of what's going on is. So um, I think at the beginning it wasn't that clear so I believe that a lot of people left because to them it wasn't clear the message that was being sent was not towards we want to keep you, we want to make sure you have interesting mandates, so imagine if a lot of people had the same opinion I had, I'd better take a mandate, whatever it is. Some of my colleagues were not maybe as smooth as I. they said, well I don't want to take anything just to take something. I took it because I'm mostly an engineer in production and manufacturing and in project management. So to me, IT is totally new. I did some implementation but more on the user side of things than the technical side. So I said, look I'm going to try it. I'm gonna convince myself I can do it or I can't do it. I can like it or I can not like it and for a year I was at a big banking company in Middleton that outsources a lot of their IT work. So I convinced myself that I can do it. So I said, that's interesting. It's good for my CV and that was it. Then I went on the ERP at ______ Middleton and now it's going to be completed the end of May and I'll find something else.

How did Clients find out?
Do you remember how your client found out?

Participant 026: Actually it was a very small…Middleton is very small.

Interviewer: Really? (laughs).

Participant 026: we did tell people around. It was not a secret. The people responsible of the mandate went to the customers to talk to them and said this is what is happening. And so that is how they found out and then they/we announced it publicly. So all those, I think that the communication side was well done.

Interviewer: What kind of reaction was there from clients?

Participant 026: Some customers said, I heard that some said we won't follow. We will terminate the contract or we won't renew the contract. Some customers and I know that some customers that we had with ACS are not with CCC. So it was probably true if they didn't stay. Other customers said, okay we'll try and we'll see what happens. And I believe that most of them kept the people, they respect the contract, so when you already had the consultant from ACS, they did finish the contract. I mean they wanted to keep those people so they completed the contract.

Interviewer: So the same people stayed on the project?
Participant 026: Yes, and it's interesting because at that time… do you know _____ the cell company, microcell… was a big customer for ACS. Almost at the same time they were acquired by Rogers. So the customers were, the same thing happened to the customers. They said, that is why we joined CCC because we wanted to go through the same thing as you. It was interesting because at the time I was on that customer and we really were living a parallel world.

This case study continues…..